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Islamabad bomb kills 14 in attack on Egypt's embassy

At least 14 people were killed yesterday when a suicide bomber blasted his way into the Egyptian embassy in Islamabad, the capital of Pakistan. The mid-morning explosion injured 60 other people as it ripped the facade off the two-storey building and tore a huge crater in the embassy compound. Responsibility was claimed by two rival militant Moslem groups, both of which have been waging a terrorist war against the Egyptian government since 1992. Page 16; Change of strategy, Page 5

Israel opens probe into assassination: An Israeli state commission started investigating the security breakdown that led to Yitzhak Rabin's assassination amid reports that a man close to the killer was an informant for the Shin Bet secret service. Meanwhile the cabinet announced plans to bar Jewish extremists from entering Israel and to disband subversive groups.

Japan's building groups suffer: Leading Japanese construction companies saw interim sales and profits fall sharply, although new construction orders are rising again. Page 19

Cable and Wireless, UK-based telecoms group, held a crisis meeting of non-executive directors that could force the early departure of either executive chairman Lord Young or chief executive James Ross. The meeting followed an acrimonious policy split between the two men. Page 17 ; Observer, Page 15

Brazilian bank buys rival's assets: Unibanco is buying the assets of Banco Nacional, its main rival, to create one of the biggest private sector banks in Latin America with net assets of about $2.5bn. Nacional, victim of recent heavy withdrawals and liquidity problems, was taken under central bank administrative control just before the Unibanco deal. Page 17

Canadian ex-PM to sue: Former Canadian prime minister Brian Mulroney is to file a C$50m (US$37m) lawsuit against the Canadian government and police over allegations that he accepted bribes to influence an aircraft purchase decision in 1988. Page 4

Cocaine seized: Spanish police seized cocaine with a street value of some £40m at Madrid's Barajas airport. Three Spaniards and a Mexican were arrested.

Bid to end stalled Ulster talks: Britain sent Ireland new proposals to try to move forward stalled talks on Northern Ireland's political future, but Dublin officials gave the proposals a lukewarm response. Page 6

Pechiney privatisation fears: Weak demand and a fall in the price of investment certificates of Pechiney have raised concerns about the privatisation of the French aluminium and packaging group. Page 17

Bank chief quits: Torstein Moland, Norway's central bank governor, quit after years of pressure over tax allegations. Last week he was charged a penalty tax for alleged gross negligence in a tax case dating from 1990. He protested his innocence and said he would appeal.

Irish face divorce poll: Prime minister John Bruton made a personal appeal for Irish citizens to back legalising divorce in Friday's referendum on the issue. Recent opinion polls have shown support for the change ebbing. Page 2

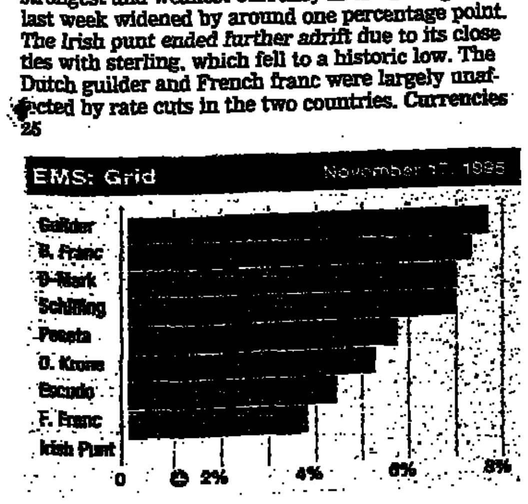
Chernobyl's aftermath: Health consequences of the 1986 Chernobyl nuclear accident will come under the microscope in Geneva when the biggest expert gathering on the issue opens today. A new report identifies a rise in childhood thyroid cancer and problems due to stress and anxiety. Page 3

Zaire holds bomb suspects: Seven people were arrested in Zaire for allegedly plotting to kill the chief of the army and other senior officers. However, diplomats and aid officials said there was widespread scepticism about the alleged assassination attempt.

Cuba may end farm subsidies: An official Cuban newspaper called for the "plague of the state subsidy" to be phased out in the farming sector. Thousands of autonomous farming co-operatives were formed when most big state farms were dismantled two years ago.

European monetary system: The gap between strongest and weakest currency in the EMS grid last week widened by around one percentage point. The Irish punt ended further adrift due to its close ties with sterling, which fell to a historic low. The Dutch guilder and French franc were largely unaffected by rate cuts in the two countries. Currencies 25

EMS: Grid November 17, 1995



Italy plays safe with share price for Eni flotation

L5,250 pricing aims to ensure success of future privatisations

By Andrew Hill in Milan

The Italian government has decided to play safe in the pricing of its largest ever sale of state assets – the flotation of Eni, the energy and chemicals group – in the hope that it will lead to success in future privatisations.

Mr Lamberto Dini, Italy's prime minister, announced a price of L5,250 a share for the sale of a 15 per cent stake in Eni. This is at the bottom of the L5,250-L6,000 range set by the treasury, which owns all Eni's shares. The sale of a minority stake in Eni, the world's eighth largest oil and gas group, is the government's first public offer of shares in an industrial company following the privatisation of a series of financial institutions.

The sale of 1.2bn shares will begin tomorrow and will raise L6,300bn to help reduce Italy's public debt. A further 180m shares are being held in reserve for sale to institutional investors, depending on the performance of the stock after trading begins.

"We wanted to guarantee the success of the operation, not only on the day of the sale, but also in future, and to have a solid shareholder base," Mr Dini said, after revealing the price in Rome.

Analysts said that at L5,250 a share, Eni will have a price/earnings ratio of under 10 against an average price of around 15 times earnings for other big oil companies.

The conservative pricing is partly intended to dispel investors' worries about Italy's fragile political situation, the recent lacklustre trading in the Italian equity market and the disappointing performance of shares in recently privatised Italian companies. The treasury will fall just short of its L10,000bn target for privatisation proceeds in 1995, unless it can push through the sale of its outstanding stake in Ina, the insurance company, before the end of the year.

The government has already raised L2,500bn this year by placing shares in Ina and in IMI, the banking group, and the Eni sale will add a further L7,245bn if the reserve shares are also sold. The government could probably have risked setting a higher price for the shares. Italian and international institutions have already subscribed for more than 1.4bn shares, compared with the 750m tranche which will initially be reserved for them.

But Mr Dini and his fellow ministers decided on a "safety first" approach, to avoid jeopardising the heavy programme of

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President Jiang unveils liberalisation moves at Apec forum in Osaka

China plans major trade reforms in WTO bid

By Guy de Jonquières and William Dawkins in Osaka

China plans sweeping moves next year to liberalise trade and foreign investment regulations, including a 30 per cent cut in tariffs, in an apparent attempt to bolster its application to join the World Trade Organisation.

The measures also include limited steps towards currency convertibility, elimination of many import quotas and controls, and easing of restrictions on operations by joint ventures with foreign shareholders.

The plans were announced by President Jiang Zemin at the Asia Pacific Economic Co-operation (Apec) forum in Osaka, which ended yesterday.

US Vice President Al Gore, standing in for President Bill Clinton at the meeting, welcomed the moves as "an important step down the pathway" to WTO membership.

The measures follow talks between the two governments in Osaka over the weekend on a recent US diplomatic initiative intended to resolve the impasse in Beijing's WTO negotiations.

Washington has handed Beijing a paper setting out the basic commitments required for WTO membership. US officials said the weekend's talks were constructive and that Beijing appeared ready to tackle seriously the issues raised in the paper.

Yesterday's liberalisation proposals were described as "positive" and "significant" by western economic analysts in Beijing. Some said the announcement could signal the start of a new phase of accelerated economic reform. However, observers cautioned that the full implications could not be assessed until important details were clarified.

The measures Beijing plans to introduce next year are:

- "Substantial" tariff cuts on more than 4,000 tariff lines, which would lower China's simple average tariff by no less than 30 per cent.
- Elimination of quotas, licensing and other import controls on about 170 tariff lines, or more than 30 per cent of commodities subject to these restrictions.
- Foreign exchange transactions by foreign companies to be "incorporated in the banking system of foreign exchange procurement and sale".
- Designation of Shanghai and other, unnamed, cities as "pilot bases" for joint ventures between Chinese and foreign partners.
- Extension of a trial scheme for joint retailing ventures with foreign partners.

Western economic analysts said the most important element was the planned tariff cuts. They estimated that these would reduce China's average tariff rate from about 35 per cent to 24-25 per cent, though that would still be above the 15 per cent average for developing economies.

Analysts were more cautious about the impact of the planned relaxation of foreign exchange restrictions, which are not at present scheduled to be dismantled completely until 2000.

"Giving foreign enterprises access to China's banking system is a positive step forward," said one. "But it is not enough to remove all the currency restrictions imposed on them."

China's announcement did not mention any plans to lift the requirement that foreign businesses obtain annual authorisation to conduct foreign currency transactions. Many foreign companies consider this the most important restriction on their foreign exchange operations.

Beijing's proposals indicate it has concluded it must decisively shift its approach if it is to complete its WTO entry negotiations. These were suspended last summer after making little progress since the start of the year, and are due to resume next month.

However, it is unclear whether Beijing has moved far enough to satisfy US demands that it enter the WTO on a "commercially reasonable basis".

Concessions break little new ground, Page 5
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President Jiang Zemin of China serves Japanese tea after the Apec forum in Osaka, watched by the Canadian and Japanese prime ministers, Jean Chretien (left) and Tomiichi Murayama. *Photograph: Reuter*

Apec's agenda for free trade by 2020

- **Comprehensiveness.** All barriers to free trade and investment to be addressed
- **World Trade Organisation.** Apec to be consistent with WTO global trade rules
- **Comparability.** Members to endeavour to ensure that individual free trade concessions are comparable
- **Non-discrimination.** Members to endeavour not to discriminate against each other. Trade barriers to be reduced between members and between Apec and the rest of the world
- **Transparency.** Trade and investment laws to be clear to all
- **Standstill.** Members promise not to raise new trade barriers
- **Timetable.** Everyone starts now and keeps going
- **Flexibility.** Developing economies allowed flexibility in dealing with issues arising from freer trade
- **Co-operation.** Economic and technical co-operation between advanced and developing economies to be pursued, to help reduce the gap between them

Russia to assist cheated investors

By John Thornhill and Chrystia Freeland in Moscow

President Boris Yeltsin has instructed the Russian government to establish a state-backed fund to compensate millions of investors cheated by financial fraudsters.

The long-awaited move, aimed at defending the rights of the country's 40m shareholders more effectively, is officially intended to bring greater order to Russia's chaotic financial markets.

It also appears to be a transparent electioneering move by the government to boost flagging support for Our Home is Russia, the party of the prime minister, Mr Victor Chernomyrdin. The party leaders have drawn up a list of populist measures for Mr Yeltsin to introduce ahead of December 17 parliamentary elections.

"Since we cannot deny the fact that we are the party of government, we must use that fact, by producing laws people like," said Mr Sergei Belayev, campaign manager for Our Home is Russia.

In addition to the shareholder compensation fund, Mr Belayev said he hoped that the president would soon sign a decree reimbursing pensioners and war veterans for their bank savings which have been wiped out by very high levels of inflation.

"The best way the president can support us right now is by signing decrees," Mr Belayev said. The shareholders' decree is intended to improve trust in

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Republicans offer Clinton way out of budget deadlock

By Nancy Dunne in Washington

President Bill Clinton and Republican congressional leaders were yesterday working towards a compromise to get the US government, partially shut down since last Tuesday, back to work.

After days of acrimonious debate, Republicans offered a deal under which the president would seek to balance the budget within seven years. However, they dropped their insistence that this be a rigid commitment.

Mr Leon Panetta, the president's chief of staff, said yesterday Mr Clinton would accept a balanced budget within that time as "a goal". Reaching that goal would be based on "mutually agreeable" economic forecasts, determined by the Congressional Budget Office, the administration and private forecasters.

"This is a serious proposal," said Mr Pete Domenici, chairman of the Senate budget committee. "It may indeed lead to an end to the crisis. It will be very well received by Republicans and I think Democrats on the Hill."

Mr Panetta scheduled meetings for yesterday afternoon with Congressional Democrats and with Republicans an hour later.

"We will try to get people back to work," said Mr Panetta. "Then let's get down to broader negotiations on how we balance the budget."

Mr Domenici said the Republicans' proposed $245bn tax cut, opposed by Mr Clinton, would also be discussed. "Everything's on the table," he said.

The proposed deal was delivered to the administration by Mr Newt Gingrich, the House Speaker, and Senator Bob Dole, the majority leader. Under the plan, congressional officials will confer with administration budget experts on the assumptions upon which the US growth forecast, a key factor underlying revenue and funding calculations, is made.

The White House has been basing its plans on more optimistic forecasts for the economy, which would mean fewer painful cuts in pensioners' healthcare and programmes for the poor than under the Republican plans.

Mr Panetta seemed likely to insist upon a more formalised role for the White House and private forecasters. "They have moved in the right direction," he said. "They still have some ways to go."

The agreement would form part of an interim measure, raising the $4,900bn debt ceiling for government borrowing. Last week Mr Robert Rubin, the Treasury secretary, was forced to take a series of technical measures to avoid a US government default on its obligations as the debt ceiling approached.

The deal would also allow government workers, up to 800,000 of whom have been hit by the shutdown, to return to their jobs, at least for the time being.

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Belgium	BFr70	Hungary	Ft215	Neth	Fl 4.25	Singapore	S$4.30		
Bulgaria	Lw110.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	Sk60		
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00		
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SIR LEON SEEKS TO OVERCOME FRENCH-LED RESISTANCE

EU to push for greater ties with US

By Lionel Barber in Brussels

The European Commission will today try to overcome French-led resistance to a blueprint for strengthening political and economic ties with the US.

At a meeting of EU foreign ministers in Brussels, Sir Leon Brittan, EU trade commissioner, intends to revive his idea for a joint study with the US on the creation of a transatlantic free trade area.

But in a shift of tactics, Sir Leon is expected to focus on the less ambitious goal of reducing – rather than "eliminating" – tariff and non-tariff barriers in order to foster closer business ties between the US and Europe.

The Commission, supported by the Spanish presidency, Britain and Germany, had hoped to use the idea of a joint study on free trade to promote a new vision for transatlantic ties to coincide with President Bill Clinton's visit to Europe next month. France, supported by Belgium and other countries more reticent about free trade, blocked the move at an EU foreign ministers meeting in Luxembourg last month.

French officials complain that Sir Leon is being given too much rein in general to promote free trade between the EU and third countries.

Despite the disagreements on trade, the ministerial meeting today is expected to focus on a lengthy list of practical measures to intensify co-operation between the EU and US.

Areas include food aid distribution to stricken areas such as Rwanda and the Caucasus; exchange of information on illegal trafficking of drugs and chemical weapon agents; and joint market access for products from the Gaza Strip and Palestinian territory. But the EU's failure to agree the Europol convention is holding back progress in justice matters.

On trade, Sir Leon will stress the benefits to European business if the EU can persuade the US to modify specific legislation which favours US companies, such as Buy American provisions at federal and sub-federal level, and the Jones Act, which favours US-built ships unloading and loading at US ports.

Pressure groups such as the Transatlantic Policy Network

Boost sought for transatlantic relations ahead of President Clinton's European visit next month

– which involves leading businessmen and politicians in the EU and US – are calling for a more ambitious approach ahead of President Clinton's attendance at an EU/US summit on December 3 in Madrid.

In a paper* to be released this week, TPN calls for the existing Nato treaty to be modified eventually to take account of new security threats, an expanded membership, and the possible emergence of a more coherent European defence pillar.

Talks on a second, new treaty covering political and economic relations would be launched by December 1999, after the planned launch of the single European currency and conclusion of the inter-governmental conference to review the Maastricht treaty which opens next year. The idea is to co-ordinate the Nato and EU enlargement more closely.

Toward Transatlantic Partnership: the Partnership Project. TPN, 133 Rue Froissart, 1040 Brussels

Bruton again appeals for Yes vote on divorce

By John Murray Brown in Dublin

Mr John Bruton, the Irish prime minister, yesterday issued a strong personal appeal for a Yes vote in next Friday's referendum on legalising divorce amid signs support for the government's proposed amendment to the constitution is slipping.

Mr Bruton's personal intervention, in his first interview during the six-week campaign, marks a last-ditch effort to stave off defeat and follows a Supreme Court decision on Friday banning the use of public money to support a Yes vote.

The government subsequently announced it was pulling its entire advertising campaign.

In the wake of recent polls, ministers have appeared increasingly rattled. Equality and law reform minister Mr Mervyn Taylor accused the anti-divorce campaign of a "farrago of lies". Mr Ruairi Quinn, the finance minister, angrily compared the head of the campaign with Adolf Hitler, a remark he subsequently apologised for.

Speaking on Irish radio yesterday, Mr Bruton said a No vote would have an impact on Irish politics for "20 or 30 years. Other decisions can be remedied, this one can't".

The government is calling for a Yes vote, to bring Ireland into line with its European partners. At a time when Dublin is trying to encourage the protestant majority in Northern Ireland to take a more inclusive attitude to the Roman Catholic Irish minority, Mr Bruton warned that a vote on divorce which ignored the rights of the 40,000 couples who have suffered marital breakdown, would do little to help the peace process.

Mr Bruton's airwaves appeal is clearly targeted at the 14 per cent of the electorate who, according to the latest poll, remain undecided. The poll in the Irish Independent on Friday shows backing for a Yes vote has fallen to 47 per cent compared with 35 per cent against. This contrasts with a high of 69 per cent in favour in May when the government unveiled its plans, which included a four-year period between marital breakdown and remarriage, aimed at countering charges that the government was introducing a "quickie divorce" culture.

All parties in the Dail, the Irish parliament, are publicly calling for a Yes vote, although some individual MPs have said they will vote against. But both Mr Bruton's own Fine Gael party, and the opposition Fianna Fail party, enjoy large support in rural Ireland, where opposition to divorce is traditionally strongest. The reform is driven largely by Mr Dick Spring's Labour party, who made it one of the preconditions for its participation in coalition with Fine Gael.

In 1986, divorce was defeated in a referendum by 2:1. The issues then were concerns over property and welfare rights. The anti-campaign is again highlighting economic aspects of divorce with posters warning that "You will pay."

Ireland introduced a judicial separation act in 1989. In 1993-94, the courts processed some 2,800 applications, compared with nearly 16,300 marriages over the same period. However, there are estimated to be 40,000 broken marriages. In addition 23,000 people are claiming single parent and deserted wives allowance, according to the pro-divorce campaign.

Mr Bruton was keen to stress this was a cross-party effort and praised the courageous stance of Mr Bertie Ahern, the Fianna Fail leader, whose own marital breakdown and subsequent new relationship have been well publicised.

SNCF's finances start to run off the rails

Losses on the French state-owned rail network are forecast to top FFr11bn this year, writes John Ridding

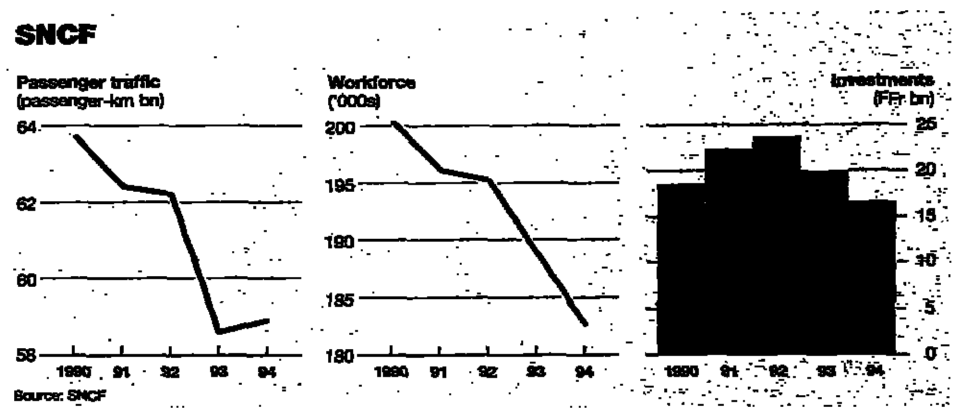
France's national rail company is known for its speed and sophistication, symbolised by the sleek TGVs which run at speeds of up to 300km per hour.

But the state-owned SNCF has failed to keep pace with a financial burden that threatens to engulf the creaking rail system and is now faced with urgent and sensitive reforms.

Losses this year are forecast to climb above FFr11bn (£1.46bn), compared with FFr8.2bn in 1994. Debts are about FFr175bn, while total funding from state and local government will amount to almost FFr50bn, a sum which would go a long way towards financing the deficit in the national welfare system.

As the SNCF and its state owners finalise a development contract to last until the year 2000, the severity of SNCF's financial plight – combined with the rise of competition from road and air transport and the process of rail deregulation in the European Union – has created irresistible pressure for change.

At stake is more than SNCF's financial fortunes. While rail operators in Britain and elsewhere proceed with radical reforms to improve competitiveness, ranging from the separation of infrastructure and operators to privatisation, France provides a test of whether state-owned public service railways can survive.



Source: SNCF

"Privatisation is out of the question," says Mr Jean-François Bénard, SNCF's managing director.

"We have a fundamentally different philosophy to that of Britain," he says, referring to the splitting of British Rail between Railtrack and operators.

"We will remain a public company and an integrated company."

He believes that efficiency in planning, security and clients are best served by a single, co-ordinated entity. Political considerations are equally important.

"The French are strongly attached to our system," says Mr Bénard. Privatisation is a potentially explosive issue, and is fiercely opposed by the country's trade unions.

But if dismemberment and sale are not options, neither is the status quo. Competition is set to rise further as a result of airline liberalisation and deregulation in the rail sector prompted by a 1991 EC directive opening national networks to third parties.

To such general pressures are added specific problems. Big investment projects, notably the high-speed TGV network, have inflated SNCF's debt burden and led to interest charges of more than FFr14bn this year.

And some trains, for example, those which travel between Limoges and Brive, via Nexon in central France, carry an average of 16 passengers.

Many of the 10,000 trains which run daily on the 32,000km of France's rail network do so at a substantial loss, but cannot be closed without government approval.

Progress has been made. Since Mr Jean Bergougnoux took over as chairman in May 1994, passengers have been drawn back on to the rails, partly through improved marketing and service. Passenger traffic halted its decline last year, while turnover is set to rise from FFr54bn to FFr57bn this year.

But for many, the pace is inadequate. "Structural change is too slow," says the OECD in its September report on France, which was published in September.

It cites rigid work practices, SNCF's lack of power to close unprofitable services and its lack of freedom in setting prices on many routes.

All of these problems are on the table as SNCF and the French government wrestle with the development programme. Both sides are guarded about the contents of a possible agreement, which they aim hope to sign by the end of the year. But broad outlines have emerged.

The government has accepted the principle of providing some debt relief for SNCF. But faced with a public debt of FFr3,200bn and a pledge to clean up the national accounts, any aid will come with tough conditions.

"The SNCF must be the motor of its own recovery by winning back customers and addressing its costs," says Mr Bernard Pons, the transport minister.

Conditions will be based on improved productivity and operating results.

The 180,000 headcount is expected to be reduced by a net 4,000 to 5,000 annually for the next few years.

Property assets will be sold and investments are to be cut, although planned high-speed lines in the south and east should go ahead.

At the same time, regional authorities will be pressed to take financial responsibility for local networks.

They will decide whether to continue operating trains on specific routes or to substitute other transport, such as buses. Five regional councils, including Nord-Pas de Calais in northern France are set to experiment with this reform from the beginning of 1996.

The problem is that such measures are likely to encounter strong opposition. Many local officials claim that attempts to increase the role of the regions are merely a way of shifting the financial burden. "We do not have the funds to operate local railways," says one provincial mayor. "This is just to shift the blame for closures."

A greater threat may come from trade unions, which are staunchly opposed to what they describe as the "balkanisation" of the rail network.

Their power was demonstrated last month when reports of plans to cut 6,000km of the rail network and proposed pay curbs prompted a nationwide strike.

"We will do what we have to in defence of the network and jobs," says an official of the communist-led CGT. A further stoppage has been called for Friday, mainly in protest at planned reforms to public sector pensions.

The next few weeks are likely to be critical. The need for reforms to stem the red ink could put the government on a collision course with the unions.

And, as on the rail lines which still dissect the French countryside, there is limited room for manoeuvre.

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US distaste for deployment grows

By Bruce Clark in Dayton, Ohio

The prospects for a successful and broadly supported dispatch of US troops to Bosnia as part of any peace settlement dimmed over the weekend as opposition to the proposal hardened.

Latest reports from the US legislature indicated that the House of Representatives strongly opposes such a deployment, while the Senate is more open-minded but still sceptical.

Mr Robert Dole, leader of the Republican majority in the Senate, reaffirmed over the weekend that President Bill Clinton had yet to make a convincing case for the deployment of some 20,000 ground troops to police a Bosnian settlement.

Bitter opposition to any deployment was reflected in a House of Representatives vote late on Friday night which decided by 243-171 that no money should be spent on US peacekeeping troops in Bosnia unless legislators specifically endorse the mission.

The votes' margin was well short of the two-thirds majority which would be needed to overrule a veto from President Clinton.

However the tone of the debate reflected furious opposition to the idea of putting US lives in danger as part of a Bosnian peacekeeping mission whose precise purpose and likely risks had yet to be spelled out.

Speaker after speaker in the debate said they were being deluged with telephone calls from citizens who opposed the deployment and did not want Americans to die in such a dubious cause.

Even some representatives who opposed the resolution, out of loyalty to Mr Clinton, said they would reserve the right to oppose the Bosnian mission once the peace talks were over.

Isolationist sentiment was also running high at a Republican Party "straw poll" in Florida where candidates who called for a deeper involvement with Bosnia and other Nato tasks were heard out in silence, while those who strongly opposed new foreign engagements received tumultuous applause.

Delegates at the straw poll, an informal opinion-sounding exercise, gave 33 per cent of their votes to Mr Dole while Mr Pat Buchanan, the most openly isolationist candidate, came a poor fourth.

However Mr Buchanan was warmly applauded when he called for the US to sever its ties with international organisations and praised a US soldier who has refused to serve in a UN mission in Macedonia.

The case of Michael New, a 22-year-old army medic who has refused to put on a blue helmet on grounds that this violates his oath to the US constitution, seems likely to become a cause celebre among the growing body of US isolationists.

Mr Clinton has repeatedly said that he has the consitutional right to send US troops to Bosnia without consulting Congress if necessary, but he has promised to seek legislators' opinion and take it into account.

Chernobyl victims under the microscope

By Frances Williams in Geneva

The biggest-ever conference on the health consequences of the Chernobyl nuclear accident nearly ten years ago opens today in Geneva.

Up to 700 scientists, doctors, health specialists and policy-makers are expected to attend the four-day World Health Organisation meeting, intended as the most comprehensive review so far of evidence from Chernobyl and other radiological accidents.

Despite extensive research since the April 1986 explosion at the Chernobyl nuclear complex in Ukraine, opinions on the health effects still vary. In a new report produced for the conference, the WHO says the main consequences so far have been a sharp increase in the incidence of thyroid cancer among children and widespread "psycho-social" problems due to anxiety and stress.

These in turn, the UN agency says, may be associated with large recorded rises in many diseases that are not themselves related to radiation, including endocrine diseases, mental disorders, and diseases of the nervous system, sensory organs and digestive and genito-urinary systems. Congenital abnormalities have been observed but do not appear to be radiation-induced, the report says.

The accident killed 30 people, hospitalised hundreds and exposed some 5m people in Ukraine, Belarus and Russia to high levels of ionising radiation. Total radioactivity of the nuclear fallout is estimated at 200 times the combined level of the two atomic bombs dropped on Hiroshima and Nagasaki.

Since the accident, the number of thyroid cancer cases among children has soared, to 565. In the worst affected area of Belarus, in the direct path of the radioactive cloud, the incidence of thyroid cancer is 100 times pre-accident levels.

However, there has been no increase in leukaemia or other blood disorders, in contrast to what happened in Japan after the Hiroshima and Nagasaki bombs. The WHO says these effects may yet be manifest in the longer term and continued monitoring is required. Other cancers, such as gastric and colon cancer, may take up to 30 years to develop following initial exposure to radiation.

There is also some evidence to indicate mental retardation and behavioural problems among a small group of children exposed to radiation in the womb, the WHO notes.

This week's meeting is the first of three big conferences in the run-up to the tenth anniversary of the Chernobyl nuclear accident.

Walesa, Kwasniewski neck and neck in poll

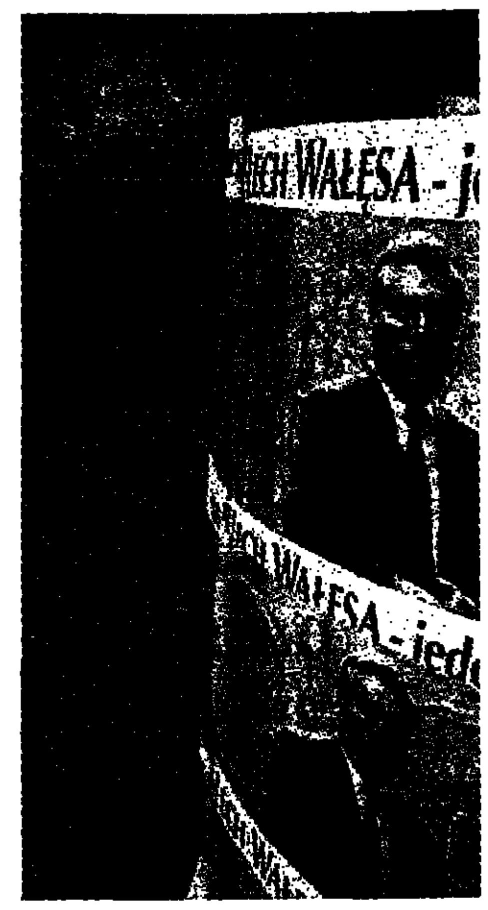
President Lech Walesa and his challenger, Mr Aleksander Kwasniewski, a former communist, were running neck and neck according to preliminary exit polls yesterday evening as voting stations closed in the final stage of Poland's presidential election, writes Christopher Bobinski in Warsaw.

The results from the OBOP polling organisation at 4pm Polish time which gave Mr Walesa 51.1 per cent and Mr Kwasniewski a 48.9 per share of the vote suggest that the country will have to wait until this evening for the outcome of the election when the final figures are to be published by the State Electoral Commission.

All day yesterday people braved sleet and snow over large parts of the country to vote at the end of an increasingly bitter election campaign. It saw Mr Walesa, legendary leader of the Solidarity movement's fight against communist rule, struggling to beat Mr Kwasniewski, the 41-year-old leader of the Left Democratic Alliance (SLD), a social democratic movement with its roots in the Communist party which ruled the country until 1989.

Mr Walesa's supporters, who included the Roman Catholic church hierarchy, warned fellow Poles that a vote for Mr Kwasniewski risked a return to miseries of the past. Mr Walesa, they said, could keep market reforms on course and propel Poland into the EU and Nato.

Mr Kwasniewski has relied on votes of former party members and young voters attracted by his modern image as well as Poles afraid that a vote for Mr Walesa would spell a rise in the church's influence.



■ An elderly woman (right) passes posters of President Lech Walesa in Warsaw at the weekend. *Picture: Reuter*

Catalan voters set to re-elect nationalist chief

By Tom Burns in Madrid

Voters in the Spanish region of Catalonia looked set to re-elect Mr Jordi Pujol, the veteran nationalist leader, to run the area's autonomous government in regional elections yesterday and to penalise the candidates of prime minister Mr Felipe González's Socialist party.

The weakness of Mr González's minority government was further underlined by the strong gains of the main opposition conservative Popular party (PP), which formerly had only a token presence in the prosperous north-east corner of the country. This time it has treated the regional vote as a primary for nationwide elections.

Exit polls broadcast by the state TV and radio network indicated that Mr Pujol, who won Catalonia's first polls to the Barcelona-based parliament in 1980, had his fifth consecutive mandate comfortably in hand although he would be short of an absolute majority. The Catalan leader's Convergència i Unió (CiU) coalition was expected to gain 66 of the local parliament's 135 seats, against 70 in 1992.

The Socialist party was expected to lose 11 seats, reducing its presence in the Barcelona legislature to 29, its worst result to date in Catalonia, one of the party's traditional strongholds, according to the polls.

In contrast PP stood to double its seats from 7 to 14. The radical nationalist party, Esquerra Republicana de Catalunya (ERC), was likely to raise its presence in the Catalan parliament from 11 to 15, maintaining its position as the third biggest in the assembly. The Communist party-led Iniciativa per Catalunya (IC) coalition was expected to return 11 members, up from 7.

With a high turnout of nearly 60 per cent, some 8 points up on past regional votes, Catalonia's 5m electorate appears to have confirmed the trend of a shrinking socialist vote which emerged in municipal elections earlier this year, and to have set the stage for a PP victory in general elections which Mr Gonźlez has promised to stage early next year.

The lowered vote for Mr Pujol apparently reflected voter discontent with the backing that CiU extended to Mr González in the Madrid parliament after the prime minister's Socialist party failed to gain an overall majority in general elections in 1993.

Spanish mixed on the benefits of democracy

By David White in Madrid

Fair: that is the mark Spaniards give to their country's record of democratic government, 20 years after the death of General Franco.

A poll in the leading daily newspaper, El Páis, showed the largest number of people – 43 per cent – were fairly satisfied with the way the constitution had worked so far. Only 8 per cent were very satisfied, 35 per cent said not much and 7 per cent not at all.

Democracy is clearly still winning converts; 76 per cent now thought it better than any other form of government, compared with 70 per cent 10 years ago and only 49 per cent in 1980. But 10 per cent were still convinced dictatorship might be preferable in some circumstances.

Spaniards are split as to whether Francoism is still alive. Definitely a thing of the past, said 48 per cent, the same proportion that thought Francoism still had some or a lot of influence. They are increasingly less divided, however, in their judgment about the Franco period. A clear majority – 63 per cent – think there were both good and bad things about the nearly 40 years of Franco's rule.

Only 26 per cent were certain it was a negative period, slightly fewer than 10 years ago, but the proportion viewing as beneficial was halved from 18 per cent to 9 per cent.

A positive side to the recent spate of press reports about corruption and abuse of power in Spain was the clear satisfaction expressed about freedom of expression. The poll, by Demoscopia, found that 90 per cent felt this was one way in which Spain had changed for the better. But more people thought the economy had got worse (43 per cent) than thought it had got better (39 per cent).

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California delays zero emission car launch

By Christopher Parkes in Los Angeles

Leading carmakers and the Californian government are to renegotiate the terms for the launch of zero-emission vehicles after the two sides reversed out of a policy cul-de-sac late last week.

The commercial launch of non-polluting cars for the mass market is now likely to be postponed until early next century if a recent technology audit assessment – that serviceable, high-performance batteries will not be ready until 2001 at the earliest – proves correct.

Although officials said pollution-reduction targets would remain unchanged, the move marked a set-back for the state where environmental policy has played a prominent role in transforming vehicle design and manufacturing practice.

Proposals that eminent state officials and regional and local government agencies should be the first to be issued with electric cars will feature in talks between industry and policymakers expected to start shortly.

Participants will also discuss an offer from the manufacturers to start sales almost immediately of limited numbers of cars powered by lead-acid battery technology, even though experts agree it has too many drawbacks to be commercial.

Manufacturers remain unconvinced that conventional customers will be interested in vehicles powered by lead-acid batteries because of range limits and long charging times.

More than five years of conflict over the timing and means of introducing zero-emission vehicles, or Zevs, ended after Mr John Dunlap, chairman of the California Air Resources Board, ordered his staff to find a "market-based" alternative to the current mandate which forces carmakers to start selling fixed quotas of Zevs in 1998.

Although both sides have made concessions, the dilution of regulations introduced in 1990 to clear California's atmospheric pollution, estimated to cost $9bn annually in health costs, is a clear victory for the world's seven biggest motor groups, and California's big oil companies.

The state government's readiness to compromise, which was signalled early last week when Mr James Strock, environment secretary, called for "the greatest flexibility possible", also raises the prospect of a more amenable stance on California's longer-term clean air initiatives.

Under the first stage of the legislation, 2 per cent of the 1998 offerings of Chrysler, Ford, General Motors, Toyota, Nissan, Honda and Mazda were to be Zevs – an estimated 22,000 vehicles.

At present, this proportion is still supposed to rise to 10 per cent by 2003, when other suppliers to the Californian market, including European groups, are due to be affected.

However, the government's acceptance of the industry's long-argued case that only a "market-based" approach will work, suggests "flexibility" could continue to influence policy well beyond the early launch phase of the new vehicles.

A General Motors executive, speaking before the air board's decision was announced, complained the state was forcing seven manufacturers to compete for market share, using inadequate technology, in a new segment which had hardly enough potential for two or three producers.

Some reports say the manufacturers have offered to produce 5,000 electric cars next year, and increase output to 14,000 by 1998, although one participant said at the weekend he expected "the entire deck" to be shuffled again.

Although Mr Dunlap said he was prepared to scrap the 2 per cent quota for 1998, he added that he expected help from the carmakers to meet targeted reductions in emissions in the coming years.

Straw poll keeps Dole on track for nomination

By Jurek Martin in Washington

Senator Bob Dole of Kansas kept his front-running campaign for the Republican party's presidential nomination on track over the weekend with a solid, if unspectacular, victory in the Florida "straw poll".

The Senate majority leader took 33 per cent of the votes of over 3,300 registered Republicans gathered in Orlando. He was followed by Senator Phil Gramm of Texas with 26 per cent and Mr Lamar Alexander, the former Tennessee governor, with 23 per cent, both of whom drew encouragement from the result.

Mr Pat Buchanan and Mr Alan Keyes, the two most polemical contenders on the right, finished next with 9 and 8 per cent respectively. Nobody else scored more than 1 per cent and several, with the possible exception of Mr "Steve" Forbes, the wealthy magazine publisher whose campaign is self-financed, may now withdraw.

The Orlando poll, though non-binding, is the last significant expression of party preference before the primaries proper next February and was considered a more reliable party yardstick than earlier straw polls in Iowa and Maine. Only Republicans registered in Florida were entitled to take part and each was accorded only one vote.

Mr Dole found time on Saturday from the budget battle in Congress to fly down to address the occasion. He said he was leading the Republican effort in Washington to turn "revolutionary rhetoric into legislative reality".

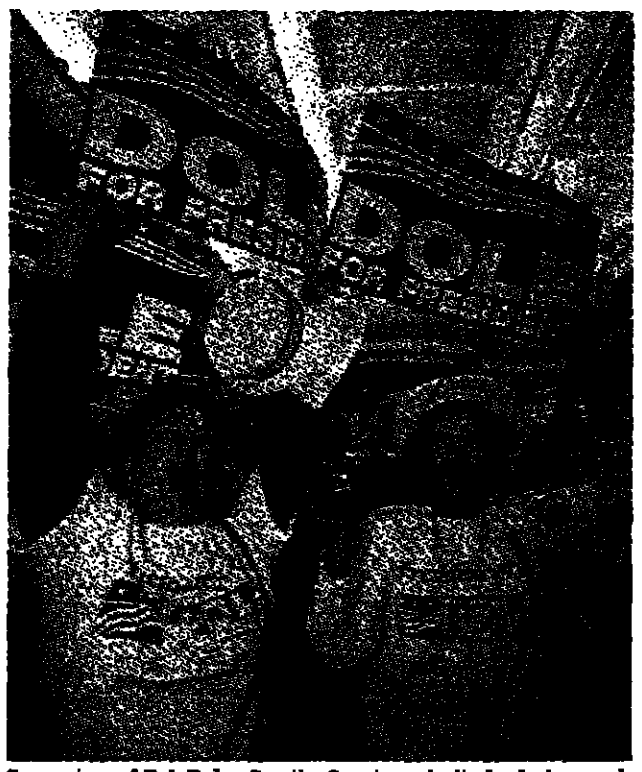
But the most tub-thumping speech came from Mr Gramm, also escaping from the capital. Well aware of the large expatriate Cuban presence in Florida he declared that, as president, "my number one foreign policy priority is to get rid of [President] Fidel Castro".

Afterwards, Mr Dole's supporters proclaimed that "a win is a win", though they expressed some disappointment that the margin of victory had not been more decisive. The Dole campaign, along with those of Mr Gramm and Mr Alexander, had invested most heavily in parties and presents to delegates and in launching personal "attack advertisements" against the other two.

Mr Gramm was most elated on the grounds that he had proved that the nomination now lay between him and Mr Dole. A third place finish behind Mr Alexander or even Mr Buchanan would have undermined that claim.

Meanwhile, Mr Mike Foster, the Republican candidate who switched parties only three months ago, easily won the governorship of Louisiana on Saturday, defeating Mr Cleo Fields, the black Democratic congressman, by 64-36 per cent. He succeeds Governor Edwin Edwards, a Democrat.

Republicans claimed this offset the disappointing party performance in the off-year elections in Virginia, Kentucky and Mississippi on November 7. But the issues, such as state gambling, were virtually all peculiar to Louisiana and its main significance was to demonstrate once again the extent to which politics is divided along racial lines in the South.



Supporters of Bob Dole after the Senate majority leader's speech to Florida Republicans over the weekend *Reuter*

Bribery claims may delay Brazil radar project

By Angus Foster in São Paulo

A contract won by Raytheon of the US to install a radar system over the Brazilian Amazon has been hit by corruption allegations which are likely to delay the project.

The Brazilian press this weekend published transcripts of telephone conversations between Mr Júlio César Gomes dos Santos, the presidential head of protocol, and Mr José Affonso Assumpção, a lobbyist and adviser for Raytheon in Brazil. During one of the conversations, the protocol chief asked if Mr Assumpcao had "already paid the guy", referring to a senator opposed to the project.

Mr Santos resigned following publication of the tapes, which were recorded by police involved in an influence-peddling investigation. Mr Assumpção said he could not remember the conversation but assumed the question about payment was "a joke".

The $1.4bn (£880m) radar project, known as Sivam, is designed to provide air-traffic control and environmental monitoring in Brazil's portion of the Amazon basin. The project has been dogged by controversy. Raytheon's original Brazilian partner, systems consultant Esca, was expelled from the contract in May following tax irregularities.

In March two Brazilian ministers appearing before a Congressional committee denied reports that bribery played a part in the tendering for the project, which Raytheon narrowly won from Thomson of France. Raytheon's bid received support from US President Bill Clinton and generous Eximbank financing.

Raytheon could not be reached for comment yesterday.

The project is stalled in Brazil's senate, where a senator from Amazonas state, Mr Gilberto Miranda, appears opposed to the project going ahead in its present form.

During the taped conversations, Mr Assumpção complained about the senator's opposition, prompting the question about whether Mr Miranda had been paid. Mr Miranda has denied any wrongdoing, and claimed he would immediately report any attempt to buy his influence.

Senate president Mr José Sarney, also thought to be opposed to the project in its present form, is mentioned in the taped conversations.

INTERNATIONAL NEWS DIGEST

S Koreans win road contracts

South Korean companies have been selected by Vietnam's Transport Ministry for four out of six World Bank and Asian Development Bank funded contracts worth a total of $317m (£200m) to upgrade parts of the country's main road, Highway One, the semi-official Vietnam Investment Review said.

Hanoi also picked a Chinese company for part of the work, the country's first infrastructure project with World Bank and ADB involvement. All six contracts require approval by prime minister Vo Van Kiet.

Three of the contracts for the road, a 2,300km two-lane highway linking Hanoi with Ho Chi Minh City, are partly funded by an ADB loan worth $120m. The winning companies were You One, Shing Sung and Keang Nam, all of South Korea and each in joint venture with Vietnamese companies. The other three contracts were partly funded by a World Bank loan worth $158.5m. These went to Kuk Dong of South Korea, Taiwan's BES Engineering and China Overseas Engineering of China. *Jeremy Grant, Hanoi*

Mexican economy shrinks

The Mexican economy continues to contract at an alarming rate, according to latest economic figures, which showed gross domestic product fell 9.6 per cent in the third quarter from the same period in 1994. This followed a 10.5 per cent decline in the second quarter.

Fears that the Mexican recession would last longer than previously thought had contributed to the peso's 20 per cent fall over the past two months, although the currency recovered slightly late last week.

The drop in economic activity comes in spite of Mexico's booming external sector, which the government estimates will increase exports by 27.7 per cent in the current year. The size of the fall may also mean the economy will contract by more than the 5.5 per cent the government has predicted for 1995. Manufacturing contracted by an annual rate of 9.2 per cent in the third quarter, while construction fell 20.7 per cent in the nine months to September. *Daniel Dombey, Mexico City*

Go-ahead for Turkish elections

Turkey's Constitutional Court confirmed at the weekend that elections called by Mrs Tansu Çiller, the prime minister, for December 24 can go ahead. The court rejected an opposition claim she had not allowed enough time to prepare for the poll.

In October Mrs Çiller called the early elections after a crisis that had led to the collapse of her coalition government. Confirmation of the election date now rests with the High Electoral Board, which is expected to rule today.

But the court struck down two articles of the election law. It ruled against a requirement that parties clear a high minimum vote threshold in each province to represent that district in parliament. Observers say Refah, the large Islamic fundamentalist party, and smaller nationalist and fundamentalist groups will benefit at the expense of larger mainstream parties.

The court also cancelled an article creating a single national constituency for 100 new MPs, who would be allocated seats on the basis of party voting. The court said they should be elected at provincial level instead. *John Barham, Ankara*

Hopes for Argentine opposition

Argentina may see the glimmer of an effective political opposition, following the election to the Radical party chairmanship this weekend of Mr Rodolfo Terragno, a 52-year-old lawyer. Mr Terragno, who replaces former Argentine president Raúl Alfonsín as head of the century-old party, has promised to step up attacks on government neo-liberal policies which he says have caused recession, record unemployment and growing social injustice.

The Radical party has effectively collapsed as an opposition force since it signed a political pact with the governing Peronist party in 1993, allowing President Carlos Menem to seek re-election.

Mr Terragno, who won the chairmanship with the support of party members opposed to the pact, promises to lead a more aggressive and coherent opposition force. The opposition's first challenge will be during mayoral polls for Buenos Aires early next year. *David Pilling, Buenos Aires*

Bid to postpone Chechen polls

The decision to hold elections to choose the head of the Chechen republic on December 17 could spark further serious violence in the troubled Caucasian region, Chechen leaders warned yesterday. Mr Khozh-Akhmed Yarikhanov, the chief Chechen negotiator at the peace talks with the Russian federation, said the Chechen parliament's decision to hold elections on the same day as the parliamentary poll in Russia could lead to civil war.

"Military actions should be stopped, troops should be withdrawn and the population should be disarmed as pre-requisites of the elections," he told the Interfax newsagency.

The attempt to postpone the Chechen election has been supported by Mr Arkady Volsky, the deputy head of the Russian peace delegation, contradicting the official Russian line. "By the end of December 17 we may have to learn the results of military actions in Chechnya rather than the election results," Mr Volsky said. *John Thornhill, Moscow*

Hawke enters mining fray

Former Australian prime minister Bob Hawke will appear before the Australian Industrial Relations Commission today on behalf of the trade union movement, as an attempt is made to settle its industrial relations battle with CRA, the mining group.

The dispute over rights to collective bargaining and the principle of "equal pay for equal work" stems from CRA's efforts to move employees at its Weipa bauxite mining operations on to individual staff contracts. But its repercussions have been much broader.

The nation's dock workers went on strike from midnight on Thursday and miners were due to walk out at midnight yesterday. The entry of Mr Hawke, a former president of the Australian Council of Trade Unions, follows a decision by Justice Deidre O'Connor, the AIRC's president, to refer the matter to a full bench of the AIRC, the highest level of arbitration. Mr Laurie Brereton, federal industrial minister, made clear that Ms O'Connor would impose a settlement on the two parties if necessary. *Nikki Tait, Sydney*

Cuba uses IMF guidelines in economic report

By Pascal Fletcher in Havana

Cuba, moving to re-start talks with western creditors, has produced the first detailed statistical report on its economy in five years, using International Monetary Fund guidelines to compile previously unpublished balance of payments figures.

The 35-page document was presented by Mr Francisco Soberon Cuban, central bank head, to the island's main government and private bank creditors in September, during visits to Japan, France, Canada, Britain and Spain for exploratory talks on Cuba's convertible currency debt.

The report puts this total debt at $9.1bn at the end of 1994. However its novelty lies in the publication for the first time of balance of payments figures using IMF-recommended methods instead of the old accounting system used by Cuba when it was a member of the defunct Soviet-led Comecon trading bloc.

The document announces an improvement in Cuba's current account from 1993 to 1994. It shows the deficit on the current account reduced from $371.6m in 1993 to $81.3m in 1994, and attributes this to an increase in exports and a rise in net current transfers, mostly comprising income from "donations and remittances", the latter from Cubans living abroad.

Presentation of the new statistical data, which had been specifically requested by creditors, forms part of a concerted public campaign by the Cuban government to bolster confidence at home and abroad about the prospects of economic recovery. Cuban leaders have announced advances in macroeconomic policy and upbeat economic growth predictions – 2.5 per cent forecast for 1995 – in recent weeks.

The government, which acknowledges its finances are badly squeezed by a heavy reliance on short-term, high-interest external financing, is desperate to gain access to medium- and long-term credits. Cuba has been starved of such credits since debt talks with Paris Club creditors stalled in 1986, a situation worsened by the collapse of Soviet bloc trade and aid after 1990 and by a continuing US economic embargo that blocks financing from multilateral bodies such as the IMF and World Bank.

Havana-based diplomats said Cuba's Paris Club creditors were now digesting the new Cuban statistical information. "This presentation of information is the first step towards a dialogue," one senior European diplomat said.

Mulroney sues over Airbus claims

By Bernard Simon in Toronto

Mr Brian Mulroney, Canada's former prime minister, will today file a claim for C$50m (£23.4m) damages against Canadian law enforcement authorities who have linked him with alleged kickbacks in the sale of Airbus aircraft to Air Canada in 1988.

Mr Mulroney's alleged involvement in the C$1.8bn aircraft deal surfaced publicly for the first time over the weekend.

Local reports said the Canadian justice department named the former prime minister in a letter to Swiss authorities in late September. The letter requested information on two numbered Swiss bank accounts and asked the Swiss authorities to freeze the accounts.

The Air Canada order, for 34 Airbus A-320s, marked an important breakthrough in North America for Airbus Industrie, the European aircraft maker. Airbus's two US rivals, Boeing and McDonnell Douglas, competed strongly for the contract. The A-320s replaced a fleet of Boeing 727s.

Mr Mulroney was prime minister at the time, and Air Canada was a government-controlled corporation. The airline has subsequently been privatised.

Rumours that the Airbus deal involved payment of secret commissions have swirled around Ottawa for several years. They resurfaced recently with reports that C$17m was paid to a Liechtenstein front company, which allegedly funnelled the money into Swiss bank accounts.

Airbus Industrie, Air Canada and other alleged participants have strongly denied the rumours. A Royal Canadian Mounted Police official indicated last week that the requests to the Swiss authorities were based on allegations, rather than on hard evidence. A response from Switzerland is expected within a few weeks.

Mr Mulroney's claim is expected to be filed in the Quebec Superior Court today. He will seek C$50m in damages from the justice department and the Mounties.

His lawyers said the allegations linking the former prime minister to the Airbus contract were false and generated by media speculation. "He had absolutely nothing to do with Air Canada's decision to buy Airbus," one lawyer said. "Nor did he receive a cent from anyone. He was not part of any conspiracy whatsoever."

Mr Mulroney stepped down as prime minister in 1993. He now works for a Montreal law firm and is a director of several large multinational companies, including Archer Daniels Midland, the US food processor, and Horsham, the Toronto-based investment holding company.

Mr Jean Chrétien, Canada's current prime minister, said over the weekend that he was not aware of the investigation concerning Mr Mulroney.

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Apec in free trade compromise

By William Dawkins and Guy de Jonquières in Osaka

Pacific rim leaders yesterday vowed to pursue with "unwavering resolve" their plan to free all trade and investment by 2020, but failed to agree exactly what that target meant.

The 18 members of the Asia Pacific Economic Co-operation (Apec) forum adopted an intricately worded compromise, designed to commit countries as diverse as Brunei and the US to working together to liberalise trade in a region representing half the world's gross domestic product.

The 111-page document lays out nine principles, including a promise to liberalise all industrial sectors, to allow less advanced economies to meet the plan flexibly and to make Apec trade concessions available to the rest of the world.

However, leaders yesterday dissented over central points, such as the meaning of free trade and whether the deadline was binding.

Mr Mahathir Mohamad, the Malaysian prime minister, maintained that many developing economies, including his own, had reservations over the deadline. Malaysia did not believe it had to scrap tariffs by that date, in contrast to US trade officials' belief that free trade meant zero import duties. "The decision on whether to abolish or reduce tariffs depends on our ability to do so," said Mr Mahathir.

That view appeared to have some sympathy from Mr Tomiichi Murayama, the Japanese prime minister, who chaired yesterday's summit. He reminded leaders that each had sensitive industrial sectors – including Japan's own rice market – which would be hard to liberalise quickly.

But in spite of the differences of view, the majority of Apec leaders left the summit feeling that the forum had acquired an important role as a free trade catalyst. "We reaffirm our determination to see Apec take the lead" in strengthening "open multilateral trading," said the leaders' communiqué.

Mr Paul Keating, the Australian prime minister, judged the Apec declaration as a "high-quality piece of policy making."

Member states yesterday presented their first individual steps, mainly tariff reductions and cuts in government red tape, towards the free trade goal.

They also agreed to come back with more steps, including individual five-year free trade plans, at next year's summit in Subic, the Philippines.

Developing Asian countries, led by the Philippines and Malaysia, voiced concern over how the yen's strength had driven up the price of imported Japanese components and the local currency cost of servicing yen loans. In response, Apec leaders agreed that finance ministers should meet to discuss currency instability.

Concessions break little new ground

By William Dawkins and Guy de Jonquières

Pacific rim governments' first individual steps towards achieving their ambitious goal of free trade and investment by 2020 yesterday proved, with one exception, to be unchallenging. At first sight, very few of the 18 leaders in Osaka yesterday, save China's president Jiang Zemin, had much new to offer beyond what they had already announced since last meeting in Bogor, Indonesia, last year.

As Mr Mahathir Mohamad, Malaysia's prime minister, admitted: "It seems quite clear that everyone is taking credit for things that they have already done."

One trend, however, was obvious. Developing countries with highly protected markets were able to offer greater trade concessions than relatively open, advanced economies. The US administration was hampered by its lack of legislative authority on trade, but other advanced economies, such as Australia and Japan, found it impossible to match the best of the east Asian liberalisers.

One trade negotiator from an advanced economy accorded top marks for progress to Indonesia and Singapore. They reaffirmed their commitment to radical tariff cuts, of up to 10 percentage points in Indonesia's case. The US came bottom of the class, for its relaxations of customs rules and controls on export of equipment with possible defence uses.

At least one Apec member – Japan – has slanted its free trade concessions to benefit Apec partners more than the rest of the world. Japan is to cut tariffs on 697 items, representing $10bn worth of annual imports, of which 80 per cent happen to come from other Apec members. The aim was to favour Apec partners without contravening the World Trade Organisation rule that trade concessions must be available to all, explained a Japanese trade official.

Asian members resist muscular approach

US remains uncharacteristically passive as mood of quiet consensus prevails

If the importance of international agreements could be measured by the sheer volume of words, the outpourings from yesterday's summit of the Asia Pacific Economic Co-operation forum in Osaka would command heavyweight status.

As well as unveiling national trade liberalisation packages, the 18 leaders endorsed a programme to free regional trade and investment by 2020.

But it is uncertain how much closer to reality this river of print takes the leaders' vision of regional free trade.

Apart from China, few of their liberalisation pledges broke new ground, and their joint statements artfully papered over differences about the speed and scope of future market opening.

To sceptics, this vagueness may seem further confirmation that Apec is too unwieldy, and its members' economic disparities too wide, for their trade liberalisation ambitions to succeed.

Nevertheless yesterday's summit exposed a marked shift in the balance of forces shaping the development of the six-year-old grouping.

Until now, Anglo-Saxon members – above all the US – have viewed Apec mainly as a weapon to break down trade barriers in east Asia. They have wanted it to be a formal negotiating body, akin to the World Trade Organisation, with clear rules and binding institutional procedures.

But most Asian members, while concerned to resist US protectionism, prefer to make progress by seeking consensus through intensive consultation. President Fidel Ramos argued yesterday that the "Asian way" was more effective than formal government treaties.

Under Japan's Apec chairmanship, Asian preferences have gained the ascendancy, so much so that a senior Japanese official claimed that the "traditional US approach of putting trade negotiators at the forefront" had become redundant.

Furthermore, Senator Bob McMullan, Australia's trade minister, conceded that even if Apec failed to achieve its 2020 goal, it would still yield valuable gains. "Every year we win," he said. "There's a range, depth and diversity of interest between us that will never be disentangled."

More is at stake than just style. Many Asian governments increasingly see Apec as a means of underpinning regional security – most notably by cementing China's engagement with the outside world.

Such thinking received unexpected support last week from US defence secretary William Perry, who suggested that the grouping develop an explicit regional security role.

Though some Apec members – and other US officials – were cool to the idea, it was cautiously endorsed yesterday by Mr Tomiichi Murayama, Japan's prime minister.

Six steps to free trade

● **Seattle, US, 1993** – Agree a broad vision of free trade and investment, to be defined in more detail over the next year

● **Bogor, Indonesia, 1994** – Agree to free all trade and investment by 2020, a decade earlier for advanced economies

● **Osaka, Japan, 1995** – Define broad principle of how to proceed, through voluntary liberalisation measures in consultation with each other. Agree to shelve divisive and difficult questions, such as Apec's relations with the rest of the world

● **Osaka, Japan, 1995** – Individual members publish first, immediate, steps towards free trade

● **Subic, Philippines, 1996** – Individual members publish medium term free trade action plans, for implementation by the end of 1999. Members to comment on each other's free trade steps, to put moral pressure on slowcoaches

● **1996-2010** – Progress from medium term action plans to the final goal. Annual reviews by officials, capped by government summits. How and when to resolve most difficult issues remains deliberately vague.

The big question is whether the Asian way can be maintained. Will apparent consensus behind quietly building solidarity through incremental and often unglamorous steps satisfy US trade ambitions?

In Osaka, the US was content to take a back-seat role. In addition to cancelling his trip to Japan, President Bill Clinton is clearly reluctant to launch any big trade initiatives before next year's presidential election, and in any case lacks the legislative authority to do so.

US passivity is not expected to last. "I don't want to denigrate this consultation thing, but if that were all Apec involved, it would fail, because the US would lose interest in it," said Dr Fred Bergsten, head of an Apec advisory group and a former senior US official.

What is most likely to keep the US engaged in Apec is the swelling wave of trade liberalisation by fast growing east Asian members, such as Indonesia, the Philippines and Thailand, where the need to attract foreign capital to finance industrialisation is already spurring unilateral reforms.

Many observers believe peer pressure within Apec can help accelerate that trend, by emboldening reformist governments in those countries to override resistance from producer lobbies.

For some, Apec is also a convenient diplomatic showcase. China's announcement yesterday of sweeping unilateral liberalisation suggests it considers Apec a face-saving forum for making concessions necessary to secure its WTO entry. By presenting such measures as voluntary contributions to the 2020 goal, Beijing can claim it is not succumbing to direct international pressure.

However, more concerted action will almost certainly be needed to keep up momentum behind the Apec process. Although the leaders have set their governments an ambitious work programme, their personal intervention will be required to ensure it is carried through.

Next year's summit, in the Philippines, will be particularly critical. It will need to come up with much more convincing unilateral market-opening measures than it did yesterday, if liberalisation is to get off to a quick start in January 1997.

"We will have a difficult time over implementation," admitted a senior Japanese official yesterday.

The Philippines summit is likely to pose a clear test of whether hurdles can best be overcome by Asia's emphasis on patient consensus-building – or whether Apec's non-Asian members will deem it necessary to push for a more direct and muscular approach.

Guy de Jonquières and William Dawkins

Hamas to join election battle

By Julian Ozanne in Jerusalem

The militant Islamic Hamas movement, responsible for scores of violent attacks and suicide bombings against Israelis, said yesterday it would form a political party to compete in forthcoming Palestinian elections.

The announcement marks an important development in Palestinian politics and raises the prospect of suspension of armed struggle by Hamas – which would bolster the Israeli-Palestinian peace process.

Hamas, the main rival to Palestinian leader Yassir Arafat, has so far refused to suspend violent opposition to the peace process and threatened to boycott the first Palestinian elections on January 20. But Hamas officials said yesterday they would form a political party – al-Khalas (Salvation) National Islamic Party – to contest the polls and oppose the peace process through peaceful, democratic means.

Officials said Hamas would remain an underground movement with "secret activities" and it is unclear if formation of a political party signals the end of armed struggle.

Much depends on talks between Mr Arafat and Hamas on the election law and possible power-sharing, which would give Hamas influence over policy, particularly education and religious affairs.

Hamas has encouraged its supporters – estimated at 20 per cent of the Palestinian population – to participate in the registration campaign, which ends on December 2. Other secular opposition groups, such as the Popular Front for the Liberation of Palestine, have backed the campaign, but said they would urge supporters to boycott the elections.

Pakistan bomb signals change of strategy

By James Whittington in Cairo

The suicide car bombing yesterday of the Egyptian embassy in Islamabad is the bloodiest attack on Egyptian government interests since the country's largest Moslem militant group, Gama'a al Islamiya, declared war on President Hosni Mubarak's administration in 1992.

The fact that it took place outside Egypt's borders appears to be part of a change in strategy by frustrated militants. Their campaign to topple the government by force has suffered badly at home following a successful campaign by the Egyptian security forces over the past 18 months to wipe them out of the big cities and main tourist venues.

Arrests and military trials have forced many of the group's remaining members to go to ground in parts of Upper Egypt where a low intensity war with the local police continues on a daily basis. Others have sought refugee abroad.

By calling on their international network of brothers in arms and sympathisers the militants have shifted their attention to relatively soft targets abroad.

The Pakistani bombing is the fourth such attack outside Egypt in the past five months for which the Gama'a itself has claimed responsibility.

In June, the group launched its first foray into foreign territory with an ambitious but unsuccessful attempt to kill Mr Mubarak in the Ethiopian capital Addis Ababa where he was due to attend a summit of the Organisation of African Unity.

In October, the Gama'a claimed responsibility for a car bomb which went off at the Croation port of Rijeka following the detention by the Croation authorities of its spokesman Mr Tala'at Fouad Qassem. Mr Qassem is under a death sentence by an Egyptian military court and has since gone missing.

Only last week an Egyptian diplomat at Egypt's embassy in Switzerland was shot dead with six bullet wounds at his home in Geneva.

A previously unknown group called the Gama'a al Adala al Alamiya (Group for International Justice), an external unit of Gama'a al-Islamiya, said it carried out the Swiss attacks "under the law of retaliation".

Since surviving the assassination attempt in Ethiopia, Mr Mubarak has been campaigning strongly for an international effort to clamp down on wanted militants who are living abroad.

Pakistan has long been a resting place for Moslem militants who went to Afghanistan to help the Mujahideen in its war against the Soviet-backed government.

Egypt has been pressuring the Pakistani authorities to expel Egyptian militants believed to be residing there – one of the more famous is Mr Shawqi al Islambouli who took part in the assassination of the late president Mr Anwar Sadat in 1981 and later helped found the Gama'a.

Last year the two countries signed an extradition treaty which has been used for a number of cases.

Security officials from Cairo were yesterday preparing to fly to Islamabad to help with the investigation into the car bombing and security arrangements at all Egyptian embassies and interest sections are to be reviewed.

Lobbying by Hongkong Telecom 'poses threat'

By Simon Holberton in Hong Kong

Lobbying activities by Hongkong Telecom in Beijing over the award of mobile telephone licences in Hong Kong pose a threat to the colony's autonomy in economic decision making after 1997, according to a senior British official.

China has promised Hong Kong autonomy in all but foreign affairs and defence, and the official said business people who complained to Beijing when they did not like a particular government decision were undermining the colony's government. Hongkong Telecom, a subsidiary of Britain's Cable and Wireless, yesterday denied the claim. A senior executive said it was not the company's practice to lobby in the way suggested.

A further opening of Hong Kong's lucrative mobile telecommunications market was signalled earlier this year when Hong Kong's office of the telecommunications authority (Ofta) decided the market could accommodate six new entrants.

As the licences to operate personal communications services (PCS) straddle Hong Kong's reversion to China in mid-1997, Hong Kong sought China's approval for the additional licences.

PCS is a sophisticated digital mobile telephone product that would enable a successful licensee to offer a wide range of services.

Officials say Hongkong Telecom has been fighting a rearguard action through its Beijing office to persuade China to consent to the award of just four licences.

A Hong Kong government official said: "This is a straight up and down autonomy issue. It is a decision that needs to be taken in Hong Kong in relation to Hong Kong market conditions only."

THE

DAVID THOMAS PRIZE

David Thomas was a Financial Times journalist killed on assignment in Kuwait in April 1991. Before joining the FT he had worked for, among others, the Trades Union Congress.

His life was characterised by original and radical thinking coupled with a search for new subjects and orthodoxies to challenge, particularly in the fields of industrial policy, third world development and the environment.

In his memory a prize has been established to provide an annual study/travel grant to enable the recipient to take a career break.

In this, the fifth year of the prize, the Trustees are inviting applicants to write A Letter from a European City focusing on a feature which enriches people's lives and explaining how it might be transferable to other European cities.

The 1996 prize will be worth not less than £3,000.

Applicants, aged over 25, of any nationality, should submit their Letter of up to 800 words in English, together with a brief c.v. and a proposal outlining how the award would be used to explore the theme of the Letter further. Please keep David Thomas's interests in mind when writing both the Letter and the proposal.

The award winner will be required to write a 1500 to 2000 word essay at the end of the study period. The essay will be considered for publication in the FT.

CLOSING DATE JANUARY 5 1996

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China economy heading for 'soft landing'

By Tony Walker in Beijing

China's economy is heading for a "soft landing" this year with inflation easing to less than 15 per cent and gross domestic product growth below 10 per cent, according to the State Information Centre (SIC).

But the centre warned that achieving inflation and money supply targets would "not be an easy task". China faces a round of increased salaries and bonus payments to state employees in the last quarter.

Rapidly rising costs of agricultural inputs such as pesticides and fertiliser are adding to pressures for food price increases. The cost of agricultural inputs rose 21.9 per cent in the nine months to September.

The SIC also warned of pressures building on prices for energy, transportation and raw material following a virtual freeze on price rises under a macro-economic stabilisation plan introduced in July 1993.

The centre, which disseminates forecasts of the Chinese economy on behalf of the State Planning Commission, was, however, fairly positive in its assessment of progress this year. "The economy is expected to end this year with stable industrial growth, an improved financial situation and inflation under control," the centre reported.

GDP growth would moderate to 9.7 per cent compared with 11.8 per cent in 1994. Retail price inflation would stand at 14.8 per cent compared with 21.7 per cent.

The SIC forecast that money supply targets would be broadly met, although the authorities are struggling to bring the M2 figure into line with financial planning requirements.

The budget deficit was expected to be close to the target for the year of Yn63.1bn ($7.6bn). Revenues were predicted to be up by a hefty 24 per cent to Yn647bn, partly due to more effective tax collection procedures.

Industrial production would be up 16.4 per cent over last year, but this represents a slowing in the rate of increase in line with the requirements of the 1993 stabilisation programme aimed at calming an overheating economy.

China is predicting a trade surplus this year of $19.7bn compared with $5.39bn in 1994 and a deficit of $12.2bn in 1993. Retail sales would be up 28 per cent on last year.

● China will begin to issue short-term bonds of three, six and nine months in 1996, according to a senior Ministry of Finance official.

The bonds will be issued to support open market operations to be launched by the People's Bank in April, the Business Weekly newspaper quoted Mr Gao Jian, director of the "state debt department" of the Finance Ministry, as saying. The bonds would be used to meet short-term capital needs and to balance capital demand, he said.

Editorial Comment, Page 15; China Survey, See Separate Section

Telecoms regulator in row over networks

By Hugo Dixon and Alan Cane

The British government and the telecommunications industry regulator are at odds over the speed with which BT's and Mercury Communications' exclusive rights to operate *international networks out of the UK* should be abolished.

The companies retained the sole right to run international services when their control of the rest of the UK telecoms market ended in 1991.

Mr Don Cruickshank, director general of Oftel, said last week that international services should be fully liberalised as soon as possible. He is urging more competition on the grounds that it will lead to lower international tariffs.

However, the Department of Trade and Industry said that while it was not opposed to liberalising international services, it was working within a framework set by the European Union and the World Trade Organisation.

The EU has directed that telecoms markets across Europe should be opened to competition from January 1, 1998. It has submitted its plans to the World Trade Organisation as Europe's contribution to negotiations to open up world telecoms markets.

It is thought the DTI is in no hurry to open the market because liberalisation could damage the UK's interests and affect the balance of trade.

Under the industry's "accounting rate" regime for handling international calls, this would lead to British operators paying more to their counterparts in other countries for delivering calls to their final destination.

Last year, outgoing calls from the UK totalled 3.13bn minutes, while incoming calls came to 3.58bn minutes, a surplus of 44m minutes of billable traffic. BT is fifth on the international operators' list with revenues of $2.9bn (£1.83bn) from outgoing international traffic, and Mercury 17th with $741m. Although international charges have fallen sharply in recent years, they are still much higher than costs, and are one of the most important profit sources for BT and Mercury.

The companies are understood to have persuaded the DTI that abolition of their duopoly would be against British interests because many overseas markets are still closed to competition. This would lead to a situation where foreign telecoms monopolies were free to compete in the UK but BT and Mercury would remain shut out of their markets.

Both BT and Mercury said last week they could not comment until completion of the negotiations between Mr Cruickshank and the DTI.

The final say on whether to liberalise international networks lies with ministers. But if they decide to retain the duopoly, Mr Cruickshank says he may pursue other ideas that could reduce the benefit BT and Mercury enjoy from their exclusive rights. In particular, he is considering whether to allow other telecoms groups a share in the profits BT and Mercury gain from handling incoming calls.

See Lex

Conservatives scorn Labour plan for tax cuts

Gordon Brown: wants to eliminate 'poverty trap'

By George Parker, Political Staff

Britain's opposition Labour party's plan for a £6bn ($9.42bn) package of tax cuts and benefit reforms to help low earners out of poverty were yesterday scorned by the Conservatives and rejected by the independent Institute of Fiscal Studies as "a gimmick".

Mr Gordon Brown, the shadow chancellor, launched a pre-Budget strike when he committed Labour to a new 10p low rate of income tax as part of a drive to eliminate the "poverty trap" that deters people on welfare going back to work.

His proposals were immediately denounced by Mr Brian Mawhinney, the Conservative chairman, who claimed Labour's proposed tax cuts and spending plans would bring the country to the brink of bankruptcy.

Mr Brown's plan to cut the starting rate for income tax from 20p to 10p over time also flew in the face of the recommendations of Labour's own social justice commission, which said a better way to help low earners was to raise tax thresholds.

But the shadow chancellor said a cut in the starting rate of tax was the best way to help low earners, because it helped to remove the crippingly high marginal rate of taxes at the bottom end of the pay scale.

In a speech today, Mr Brown will compare Labour's commitment to help low earners with Mr John Major's long-term promise to scrap inheritance tax and capital gains tax, which he said would primarily help the better off.

"Our long-term objective is a new lower starting rate of tax at 15p or preferably 10p," he will say. "My long-term aim is a tax cut which benefits everyone both directly and by putting people back to work, releasing the resources for stronger public services."

Mr Brown said the cut in the bottom tax rate would be implemented when it was affordable "under the fruits of growth" of a Labour government.

At present, 5.3m people pay the lowest tax rate, 20p in the pound, which applies to the first £3,200 of taxable income. Labour would move to the proposed *10p band in stages, but* the total final cost would be around £6bn.

Mr Andrew Dilnot, director of the Institute of Fiscal Studies, described Mr Brown's plan as a gimmick. "If Gordon Brown is serious about doing his best for people on low incomes through the tax system, he should use any money he has through raising tax allowances," he told the BBC.

But Mr Paul Gregg, senior researcher on pay at the London School of Economics, said Mr Brown's changes would do a great deal to reform a tax and benefit system which left *low earners facing marginal* tax rates of 80 per cent or more.

Dublin lukewarm on peace proposal

By John Murray Brown in Dublin

Irish officials yesterday gave a lukewarm response to Mr John Major's proposals for breaking the impasse in the Northern Ireland peace process, as London and Dublin try to agree a date for a summit before President Bill Clinton's visit at the end of this month.

An Irish government spokesman said the proposals, in a letter from the UK prime minister to Mr John Bruton, his Irish counterpart, were being examined over the weekend. The two are expected to speak by telephone early this week.

A senior official said, however, that "most of the differences that we had at the start still remain".

British officials say the proposals constitute a "re-working" of the twin-track approach. This envisages the start of preliminary talks between Northern Ireland's political parties to prepare an agenda for full round-table negotiations. At the same time an international body would be set up to report to the two governments on arms decommissioning and other issues.

Dublin pulled out of a summit in September after Sinn Féin, the IRA's political wing, indicated that it would not co-operate with the international body, which it says is seen by London as a way to secure an IRA surrender.

Mr Martin McGuinness, Sinn Féin's chief negotiator, yesterday indicated that the IRA would not co-operate with the commission if the British insisted on retaining its demand that the IRA start decommissioning its arms before Sinn Féin could be admitted to all-party talks.

In an interview on BBC Television, Mr McGuinness accused the British of adopting a "cynical approach" to the international arms body.

Irish officials believe any relaunch of the twin-track approach would have to win Sinn Féin's acquiescence.

The UK proposals are a response to Mr Bruton who sent Mr Major a six-point proposal to break the deadlock.

They are understood to contain a target date for the start of all-party talks.

Differences remain, however, over a timetable for the international arms body to report to the two governments.

The latest moves come amid new doubts that political difficulties with the US budget could force President Clinton to call off his trip.

Ferry safety move faces lack of world support

By Charles Batchelor, Transport Correspondent

Proposals to tighten safety standards on roll-on roll-off *ferries face a* difficult passage through the International Maritime Organisation when the UN's body starts to consider the issue in London today.

In spite of the backing of the UK and Sweden, which have both suffered ferry disasters in recent years, and the support of a group of north European countries, it is not certain that the proposed improvements will receive the backing of the international maritime community.

"It's finely balanced," said one official. "I don't think we'll get an international agreement but we will get a regional one."

France and the Mediterranean countries including Greece are known to be opposed to the idea of raising standards because this would increase the capital and operating costs of ferries. They are expected to say that weather in the Mediterranean is not as severe as in the North Sea and the Baltic.

Britain has said it will try to put in place a regional agreement covering the the north European countries if a worldwide accord cannot be reached. Failing that, it would go it *alone in imposing higher standards.*

British officials have estimated that the cost of improving safety on the 40 British ferries which serve UK ports could be as high as £200m over the next four years, including the cost of modifying vessels and restrictions on operating procedures which would result. *A further 30 ferries* which use UK ports but which fly foreign flags would also have to be modified.

UK ferry companies would be expected to meet the cost of improving their vessels. Until new vessels came on stream the modifications would create work opportunities for maintenance and repair yards in the UK and elsewhere.

The issue of improved ferry safety arose after the sinking of the Estonia in the Baltic in September 1994 with the loss of 900 lives. Britain suffered a ferry loss when the Herald of Free Enterprise capsized outside Zeebrugge harbour in 1987 with the loss of 193 lives.

The UK, Sweden, Denmark, Finland, Norway, Germany and the Republic of Ireland have pledged their backing for a new set of international standards but they require the approval of two-thirds of voting countries.

Only 30 of the IMO's 150 members operate ro-ro ferries so most countries are expected to be neutral to the proposals. *Japan is in favour of a regional agreement.*

UK NEWS DIGEST

Government may scrap levy on gas production

The British government is not ruling out removing a levy on *North Sea gas production to ease* the strain on British Gas and other gas suppliers which are locked in to high price purchase contracts with producers.

An indication of the government's position is likely to be given by Mr Tim Eggar, the energy minister, on Wednesday when he addresses North Sea oil and gas producers.

Last week British Gas appealed to the government to remove a 4p a therm levy on gas extracted from some of the earlier gas fields which were opened up in the North Sea. The levy costs British Gas £170m ($266.9m) a year.

Although ministers are reluctant to become directly involved in negotiations between producers and suppliers, they are worried that high price contracts will damage the gas market and impede progress towards full competition. They see action on the regulatory or tax front as one way the *government might* be able to provide relief to the market and keep liberalisation on track.

Scrapping the levy, which applies only to a small number of older North Sea gas fields, would be a relatively inexpensive way of helping *hard-pressed companies.* *David Lascelles*

UK business plan for Internet

A multi-million pound project that would *enable British industry* to advertise its services around the world via the Internet is being considered by Mr Ian Lang, the trade and industry secretary.

It is set to form part of the government's "information society initiative", under which tens of millions of pounds may be made available to support products and services to run on the Internet information superhighway.

The timing of an announcement, planned for early next year, and the sum of money allocated to the project, depends on the Department of Trade and Industry's overall spending *levels for the next few years, which* will be unveiled in the Budget next week.

The Internet scheme is being organised by the Federation of the Electronics Industry, a UK trade body for the information technology industry whose members *include dozens of small* businesses and global heavyweights such as British Telecommunications, Motorola, Fujitsu and International Business Machines.

The system would fill an important gap for potential business users of the Internet – many of which are discouraged from using the system by the large amounts of information stored on the computers linked to it and the difficulties of navigating around the "computer junk". *Peter Marsh*

PM to make appeal on Europe

Mr John Major will tonight set out his vision for the development of Europe in a speech to the Lord Mayor's banquet in London designed to appeal to both wings of his party.

The prime minister will stress Britain's support for the enlargement of the EU to include nations from central and eastern Europe, possibly increasing membership from 15 to up to 27.

But he will warn that "a knot of issues" has to be resolved first, including the need for wholesale reform of the Common Agricultural Policy and the structural fund.

The Tory right has long urged the redrawing of the two support mechanisms, which transfer large sums from industrialised members to poorer states.

Mr Major is also expected to set out a cautious vision of EU monetary union and repeat his view that only a small number of countries will be eligible to participate by 1999.

Meanwhile Mr Michael Howard, home secretary, will today tell Labour MPs that asylum-seekers from Nigeria will not be among those dealt with under a new "fast track" procedure to quickly weed out bogus applicants. Mr Howard is expected to make a Commons statement setting out details of the asylum and immigration bill, with aides insisting that he hopes to take some of the political heat out of the issue. He will dismiss reports that Nigeria, Algeria and Sri Lanka would be among those countries on a so-called "white list", under which asylum applications are considered on the fast-track basis.

George Parker, Political Staff

Halifax in share move

The millions of customers of Halifax Building Society who will receive free shares when the society becomes a public limited company could be offered a guaranteed minimum price for their shares if they sell soon after the flotation.

Halifax, the UK's largest mortgage lender, and its advisers are looking at how to ensure that when the society floats there is an orderly way for institutional investors to buy the shares which will be sold by many of the estimated 10m individual investors. As a plc Halifax would be a FTSE-100 company, and institutional investors would need to include it in their portfolios. Its merger with the Leeds Permanent in the summer took its total assets to over £90bn.

The Halifax flotation is likely to take place towards the end of next year. *Alison Smith*

M4 strength puzzles economists

Graham Bowley looks at the behaviour of Britain's money supply

Something strange is happening to Britain's money supply, much to the puzzlement of economists and policy makers.

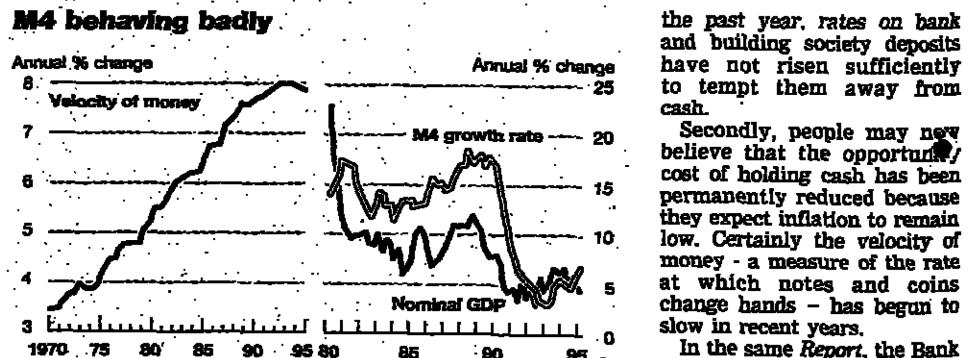
While most economic indicators – such as retail prices, wages, commodity prices and measures of real output – currently point to a slowing of the UK economy and suggest that inflation remains subdued, the *money supply continues to* grow strongly – hinting that a sharp acceleration in inflation could perhaps be just around the corner.

Indeed, in the September monetary meeting between the chancellor and the governor of the Bank of England, the chancellor said that his main cause of concern about inflation was "the continuing strong growth of M4". He added that "in recent years M4 has behaved in an unpredictable way."

Provisional estimates published today of how fast M4, the broad measure of the UK's money stock, grew last month *are therefore likely to be scrutinised* closely.

Economists within the Treasury and Bank of England and across the City of London will be looking for further clues which might help determine whether the inflationary threat of strong money growth is real or not. They will also be looking to explain why the money supply's behaviour is currently so unpredictable.

M4 behaving badly



Source: CSO; Bank of Engalnd; BIS and International Financial Statistics

Last month's figures showed that the growth of M4, which comprises private sector holdings of notes and coins as well as bank and building society deposits, slowed slightly in September to an annual rate of 8.2 per cent but still remained very close to the top of the Treasury's monitoring range of 3-9 per cent.

The growth of M0, the *narrower measure of the money* stock which includes mainly notes and coins in circulation, also slowed last month to an annual rate of 5.2 per cent – but it exceeded the Treasury's 0-4 per cent monitoring range.

The monitoring ranges are a fairly recent development. In the early 1980s, it was widely believed that the money supply – the rate of growth of the stock of money – directly determined the rate of inflation, with a time lag.

As an attempt to control inflation, the money supply was tightly controlled. Since then however the relationship between money supply and inflation has been *found* to be less clear and as a result the supply is now "monitored" rather than directly targeted.

In its latest Inflation Report published earlier this month, the Bank of England put forward two main reasons which might explain the strength of the growth of narrow money, or M0.

First, *people may* be more prepared to hold their money in the form of cash rather than in bank or building society deposits because, although interest rates have risen over the past year, *rates on bank* and building society deposits have not risen sufficiently to tempt them away from cash.

Secondly, people may now believe that the opportunity cost of holding cash has been permanently reduced because they expect inflation to remain low. Certainly the velocity of money - a measure of the rate at which notes and coins change hands – has begun to slow in recent years.

In the same *Report*, the Bank of England tries to explain why, after the relationship between M4 growth and nominal activity has been so close for much of the 1990s, the two should have now started to diverge.

It again puts forward two reasons. One is that people may have been induced to stop spending their money, deciding instead to save more – either because of higher interest rates or because of greater uncertainty about income and unemployment.

The second is that banks may have become more willing to lend *money* or *people may* have become more more willing to borrow from banks.

Breaking total money supply down into different sectors, the Bank finds that nearly half the £38.7bn rise in M4 between December and September this year was in deposits of individuals.

هكذا من الاصل

THIS WEEK

Euro scapegoat switches to attack

DATELINE

Brussels: a bureacratic pledge to do "less, better" is working, writes **Lionel Barber**

You will recall the story of the standard Euro-condom. In its original form, the proposal supposedly ignored the principle of subsidiarity in EU legislation which calls for the respect of different national characteristics. After a lengthy wrangle, a compromise ensued which failed to measure up – you might say – to British ambitions.

All good clean fun, unless you happen to work for the European Commission, the perennial fall-guy when it comes to Euro-myths. Flat-footed bureaucrats have never quite managed to dispel the notion that they are out to ban saucy seaside postcards, the asymmetrical Christmas tree, or the prawn cocktail-flavoured crisp.

But two events last week suggest that the Commission is fighting back. The first sound of someone slipping on the gloves coincided with an uncharacteristically robust response to the annual court of auditor's report on fraud and financial mismanagement in the EU's annual Ecus 80bn budget; the second was less audible but more important, and appeared in the shape of the Commission's annual work programme for 1996.

Let us deal with the court of auditors first. This catalogue of incompetence, mismanagement and waste – featuring crooked Mediterranean farmers taking advantage of the common agricultural policy and organised criminals in the former Soviet Union exploiting well-intentioned EU "technical assistance programmes" – has always been a journalist's dream and the Commission's nightmare.

Jacques Delors, holed up in his presidential office, rightly used to complain that most of the reporting on the auditors' report was misleading or exaggerated; but he was always more interested in big ideas than tight budgets and never in his 10 years in Brussels figured out a media strategy to prevent the Commission being turned into a scapegoat.

Enter Erkki Liikanen, the youngish former Finnish finance minister who arrived in town this year as the new commissioner in charge of the budget, financial management and personnel. His first move was to open diplomatic relations with the court of auditors and its prickly Dutch president, André Middelhoek. In parallel, Liikanen won support from newly-installed president Jacques Santer for internal Commission reforms linking experience in financial management to fast-track promotion, the aim being to create a new cost-conscious "budget culture".

The pay-off came last week when Liikanen was able to convince the parliament, the court of auditors and most of the media that the Commission is getting to grips with financial mismanagement. Just as important, in terms of public presentation, all news stories delivered the message that the Euro-buck should stop with the member states rather than the Commission when it comes to the EU budget.

So although mislaid and misspent funds amounted to more than Ecus 500m, Liikanen pointed out time and again that four-fifths of EU spending passes through member states' hands rather than being disbursed and controlled by the Commission. At times, he sounded like a graduate of some spin-control academy.

By contrast, news of the Commission's work programme for 1996 commanded less public attention. Yet in its own way, the story was just as interesting. No-one could fail to be struck by how far the Brussels executive has scaled back its legislative programme compared to five years ago.

In 1996, the Santer Commission plans to propose just 19 new laws, compared to about 50 this year and a high of 180 in 1990. No new law on social policy is on the way. Instead, the Commission is putting much more emphasis on public discussion through green and white papers, an approach summed up in Jacques Santer's pledge to do "less, better".

The figure of 19 is slightly misleading because it does not include new proposals or regulations in areas where the EU already has laws. And though most of the proposed directives – on child seatbelts, transport of hazardous goods, forest protection and the disposal of old cars – appear fairly harmless, there is still the odd clanger. Only the most starry-eyed Euro-crat could believe that the member states will support EU-wide standards on media ownership.

The Commission's lighter legislative touch reflects a broader trend. The high-water mark of Brussels-driven legislation, whereby the Commission was always co-conspirator with the member states, has passed. The chief reason is that the near-300 directives needed to create the single market have already passed into law. Now the onus is on member state governments to ensure that they are being enforced on the ground.

The other reason is that everyone – Commission, parliament and the decision-making council of ministers – has grasped that public tolerance of intrusive legislation has reached its limit. Douglas Hurd's dictum that Brussels should not be poking into the nooks and crannies of the body politic has been heeded. The former British foreign secretary, whose good humour is much missed in Brussels, would have appreciated the irony that all those stories about Euro-condoms may have had a positive influence after all.

PEOPLE

Times change at US giant Time Warner

Just an average day at the office as the media company loses the head of its music recording division, writes Tony Jackson

Last Thursday was a pretty average day for the US media giant Time Warner. Michael Fuchs resigned as head of its music recording division, Warner Music. Coincidentally, so did his opposite number at Warner's Hollywood rival, MCA. The new head of MCA Music will be Doug Morris. Fuchs fired Morris as head of Warner Music in June.

If this seems confusing, observers of Time Warner are getting used to it. The latest of a series of management upheavals brings to the top of the pile an unusual duo, Bob Daly and Terry Semel.

Already joint heads of the Warner Bros film studio, the two now also have Fuchs' job of running the world's biggest distributor of recorded music.

Gossip has it that Fuchs, who besides being head of Time Warner's music division ran its pay-TV operation, Home Box Office, wanted the job of second-in-command to Time Warner's chairman and chief executive, Gerald Levin. He was therefore allegedly luke-warm on Time Warner's impending $7.5bn acquisition of Turner Broadcasting, which will bring in Ted Turner as No 2 instead.

While Turner is set to be vice-chairman, power underneath him has now shifted decisively to Daly and Semel.

Besides adding the music division to their film business, they will have a big say in the handling of Turner Broadcasting's assets, such as its cartoon network and its library of MGM classic films.

Assuming – as many do – that the mercurial and very wealthy Turner will soon tire of life as a Time Warner employee, Daly and Semel seem established as Levin's heirs apparent.

Their partnership is an unusual one. Semel, 52, is a life-long Warner Bros man while Daly, 58, made his name at CBS, the TV network, before moving to Warner Bros as chairman and chief executive in 1981.

Last year, Daly made Semel his co-chairman and co-chief executive. But the two had been working together closely for a decade. They are now so much of a team that, as one newspaper put it last they are in the habit of finishing each other's sentences.

Given Time Warner's recent history, this concentration of power seems salutary. It has become a familiar charge that the 1990 merger of Time and Warner has never lived up to its promise: that its extraordinary range of creative assets, from Bugs Bunny to Time magazine, have not been harnessed to a single purpose.

Dynamic duo: Terry Semel (left) and Robert Daly

To the extent that this is fair, it owes much to internecine struggle between the group's divisional chiefs. Blame for that is commonly attributed to Levin, who has been described by his critics as insufficiently diplomatic – or, alternatively, too indecisive – to keep the peace.

There are two objections to that view. First, a series of powerful and egotistical executives has resigned or been fired, and Levin remains in the chair. Second, Turner Broadcasting was an attractive prize, eagerly sought by rival media companies. The fact that Levin grabbed it suggests that Time Warner is not such a hamstrung organisation after all.

It is also worth recalling that the Time Warner merger was the creation not of Levin but of his predecessor, Steven Ross.

On Ross's death three years ago, Levin inherited a sprawling collection of assets and an immense mountain of debt. Since then, in the words of a senior executive at a rival media group, he has been playing the hand he was dealt.

Nevertheless, commentators last week were divided on the significance of Fuchs' departure. On one interpretation, it shows Levin finally imposing his authority. On the other, it calls in question his decision to put Fuchs in charge of the music division – on top of his existing job at HBO – only five months ago.

Time Warner has a set of powerful individual shareholders, whose view on Levin could ultimately prove decisive.

These include Edgar Bronfman, head of Seagram (whose recent takeover of MCA led to Thursday's resignation of its music chief, Al Teller, on grounds of "philosophical differences"), and the telephone giant US West.

Assuming the Turner deal goes through, they will be joined Mr John Malone of Tele-Communications Inc – America's biggest cable TV company, just ahead of Time Warner – and Turner himself.

In other words, the complexity of Time Warner's management is fully matched by that of its ownership. Levin has proved remarkably durable so far. It is not clear that recent events have made his job any easier.

NAMES IN THE NEWS

De Crespigny goes for gold under Normandy's banner

Ten years and one month after he set up in business on his own, using A$500,000 accumulated when working for a Perth accountancy firm, Robert Champion de Crespigny has announced that he is to consolidate his complex stable of listed gold mining companies into one group under the Normandy banner, Kenneth Gooding writes. Analysts reckon his family interests are now worth more than A$110m (£51.8m).

He says investors don't care for the complexities of the present corporate structure, but his main reason for promoting the merger is so that the combined group will have the financial muscle to complete with other international mining companies. The merged entity will have an estimated market value of A$3bn (£1.4bn) and rank as the world's eighth largest gold producer, with an annual output of 1.5m ounces.

Now 46, with a self-assurance often taken for arrogance, de Crespigny has a reputation for being both cautious and hardworking, with a liking for complicated deals that keep the opposition off-balance. In the past ten years there have been many of these. He was spotted early on by Harry Oppenheimer, whose family controls the world's biggest natural resources empire, Anglo American Corporation of South Africa, De Beers and Minorco. Their association was solidified in 1987 when Anglo merged its Australian offshoot to de Crespigny's Poseidon.

De Crespigny says Anglo has been "an excellent partner and great supporter". Nevertheless, his latest manoeuvre seems to have caught Minorco, which now holds Anglo's 19 per cent interest in Normandy, off guard. Far from welcoming the proposed merger, which will turn Normandy into something of a competitor, Minorco says frostily it will wait to see the full terms before commenting.

Cassaro bucks the trend at Belleli

The appointment of Renato Cassaro as chief executive of Belleli, the Italian engineering contractor, looks like a rare case of a manager from Italy's sprawling state sector being called in to teach a lesson or two to a family-owned company, writes Andrew Hill in Milan.

Cassaro, 55, took over full management control at Belleli last week after 17 years as a senior executive with IRI, the state holding company, and its subsidiaries.

Belleli is a company with turnover of L1,400bn (£550m) a year and an international reputation in the heaviest of heavy engineering contracts.

It builds, for example, some of the world's largest tension leg platforms for deep sea oil and gas exploration, as well as nuclear power plants, chemical process units and anti-pollution systems.

But the company has hit serious financial trouble this autumn, following delays in contract payments from the Saudi and Italian governments.

Creditor banks made Cassaro's appointment one of their conditions for backing a restructuring and refinancing of the group, intimating that the Bellelis – who founded the Mantua-based group in 1947 – should be distanced from day-to-day management.

As a result, Riccardo Belleli, the current chief executive and son of founder chairman Rodolfo, will become the group's deputy chairman.

Cassaro, who was chief executive of Fintecna, IRI's industrial and civil engineering subsidiary, takes over at Belleli just as the situation is beginning to stabilise.

A Mantua court agreed last week to put Belleli under "controlled administration", which gives the group protection from its creditors, and banks seemed near to approving the refinancing plan.

Havanas galore for Sherritt recruits

It would be a pity if Rupert Pennant-Rea and Sir Patrick Sheehy did not enjoy Cuban cigars, writes Bernard Simon in Toronto. The former Bank of England deputy governor and BAT Industries chairman can look forward to a steady supply of the best Havanas, with their appointment to the board of Toronto-based Sherritt International.

Sherritt, which is in the process of being spun off by its parent into a separate, publicly traded company, is one of the largest – and certainly the most prominent – foreign investors in Cuba.

Its main business is a joint nickel venture with a Cuban government agency. It is also involved in developing the island's oil production and has a stake in a 400-room beach hotel. Sherritt's chairman, Ian Delaney, is on good terms with Cuban president Fidel Castro.

Sheehy's tobacco contacts could come in handy as Sherritt expands its presence in Cuba. But the two UK-based directors could be most valuable in smoothing the way for a London listing.

Sherritt promotes itself as the closest thing there is to a Cuba country fund.

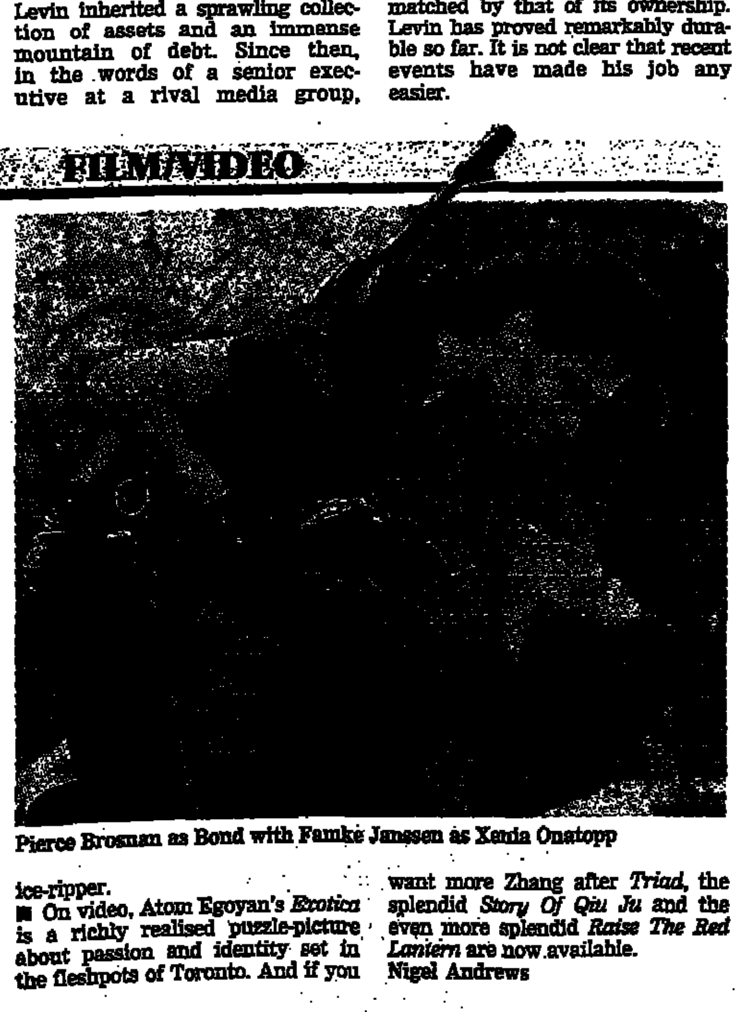
FILM/VIDEO

■ At last, an Irish 007. *GoldenEye* brings us all the way from James McBond (Sean Connery) to James O'Bond (Pierce Brosnan), via three English Bonds who fought Smersh with public-school smirks.

The makers say that Brosnan is the best in decades. But they would, wouldn't they? Oh, and there is Dame Judi Dench as a re-sexed M – who perhaps had more in common with that other great agency chief, J. Edgar Hoover, than we thought.

■ *Shanghai Triad* is a masterpiece from China's Zhang Yimou, maker of *Red Sorghum* and *To Live*, and never mind those who say it isn't. "Just a gangster movie," cried some at Cannes. But this dazzlingly filmed tale of a boy and a gangster's moll caught up in the underworld of 1930s Shanghai has a Conradian sense of horror, and clear parallels with post-Mao China.

■ Elsewhere, it is an odds-and-ends week. Leonardo DiCaprio bids to be the new James Dean in *Basketball Diaries*. Michelangelo Antonioni re-establishes himself as the old *leone* of Italian cinema in the revived *L'Avventura*. And *The Scarlet Letter*, on release though still not shown to the press, brings us Demi Moore in Nathaniel Hawthorne's famous bodice-ripper.



Pierce Brosnan as Bond with Famke Janssen as Xenia Onatopp

■ On video, Atom Egoyan's *Exotica* is a richly realised puzzle-picture about passion and identity set in the fleshpots of Toronto. And if you want more Zhang after *Triad*, the splendid *Story Of Qiu Ju* and the even more splendid *Raise The Red Lantern* are now available.

Nigel Andrews

MUSIC

■ Rumours surrounding the Beatles' unreleased recorded legacy have been circulating ever since their break-up 25 years ago; little wonder that the release tomorrow of *The Beatles Anthology I* (Parlophone) is causing such a stir.

Of immediate interest is the single from the double album, "Free As a Bird", which unites the three remaining members of the band with an old John Lennon vocal track. But there are plenty of nuggets besides, including the complete, and infamous, Decca audition of 1962 which led to the label turning the group down. Hindsight is a wonderful thing – now we can decide for ourselves. Then there are the alternative versions of some of their best-known songs: a "heavier" version of "And I Love Her"; the Ed Sullivan Show "All My Loving"; the "rattle your jewellery" take of "Twist and Shout" from the 1963 royal command performance. For real fanatics, there are also extracts from rehearsals, false starts and studio experiments which give an insight into the group's creative processes in full flow.

■ If 1960s nostalgia is not your thing, you could always try going back a decade. *All The Best* is a double album of Frank Sinatra's greatest recordings on the Capitol label, freshly repackaged to celebrate his 80th birthday. It is a reminder of what all the fuss was about: Sinatra's smooth, seductive singing never sounded better than when allied with the finest work of a Cole Porter or a Gershwin. Great stuff for the wee small hours, as the man himself put it.

■ Like the Beatles at the peak of their popularity, those big-selling Benedictine monks of Silos (of *Canto Gregoriano* fame) have found the pressures of performing live too much to bear. Indeed, they have decided to stop giving any concerts outside the confines of their monastery. This gives *Canto Live* (EMI), a live recording from a performance at the Teatro Real in Madrid, a certain piquancy, but their moment in the limelight must surely be over soon.

Kent Nagano and the London Symphony Orchestra give a polished performance of Ravel works including the *Valses Nobles et Sentimentales* and the *Rapsodie Espagnole* on the Erato label.

Peter Aspden

FT GUIDE TO AIRLINES

It seems to be a busy time in the aviation business. Singapore Airlines is buying 77 aircraft from Boeing and 157 engines from Rolls-Royce. Boeing is thinking about taking over McDonnell Douglas. Anything else going on?
Well, Northwest Airlines of the US and KLM of the Netherlands, previously best buddies, are at each other's throats. United Airlines and American Airlines were thinking about taking over USAir but both decided not to.

Anything else?
Nearly 9,000 workers at Daimler-Benz Aerospace of Germany have been told they are going to lose their jobs. Fokker, the Dutch aircraft maker, is fighting for its life. About 30,000 Boeing workers are on strike.

Why is all this happening now?
Let's deal with the Singapore news first. Singapore is one of the few highly profitable airlines in the world. Another is British Airways. They can afford to buy new aircraft. Most airlines struggle to make decent profits. Many cannot afford to buy aeroplanes. That's why aircraft makers are having a hard time.

How do Singapore and BA manage to make so much money?
Singapore and BA dominate two important aviation crossroads: Changi airport and London's Heathrow respectively. They bring passengers in from all over the world to their airport bases, where many change aircraft and go somewhere else. They are also, to be fair, well-managed companies offering good service to their customers.

Why aren't the other airlines as profitable?
Some of the European airlines, such as Air France and Iberia of Spain, have been protected from competition by state subsidies and have not kept pace with the cost-cutting and quality improvements of more successful carriers. US airlines suffer from the opposite: they are unprotected. The US market has been deregulated and competition is ferocious. Ticket cost has fallen, which is good news for consumers, but it makes it difficult for the airlines to make profits.

Is that why American and United were thinking of taking over USAir?
Yes. With air fares so low, it helps to have more passengers. USAir has had financial and labour problems but it has an extensive network in the north-east of the US which either United or American would have been happy to combine with their own routes.

So why didn't they buy USAir?
Because those financial and labour problems were too onerous and USAir's costs too high.

But isn't USAir linked with BA?
Yes, BA owns 24.6 per cent of USAir. That has caused BA trouble; it had to write off half the £251m it spent buying its stake. But BA and USAir both benefit from the alliance by persuading passengers to transfer between the two airlines rather than travelling on another carrier. That's why US and European airlines like to form partnerships.

But KLM and Northwest, *considered an ideal couple*, have *fallen out*.
Airline marriages are no easier than human ones and suffer the same strains. Northwest says KLM is overbearing and threatens its independence.

I thought airlines other than BA and Singapore were making money again.
Many are, but aggregate profits are still pitiful. Airlines will make net profits of $5.7bn on international scheduled flights this year. That beats than last year's $1.8bn and far better than the previous four years when they lost a total of $15.6bn. But this year's net profits will represent only 4.5 per cent of revenues. The International Air Transport Association, the airlines' trade body, says carriers need a profit margin of about 7 per cent before they can invest confidently in new aircraft.

When might that happen?
Boeing does not expect airlines to begin buying aircraft in large numbers until well into the next century. About 12,000 Boeing workers have lost their jobs this year.

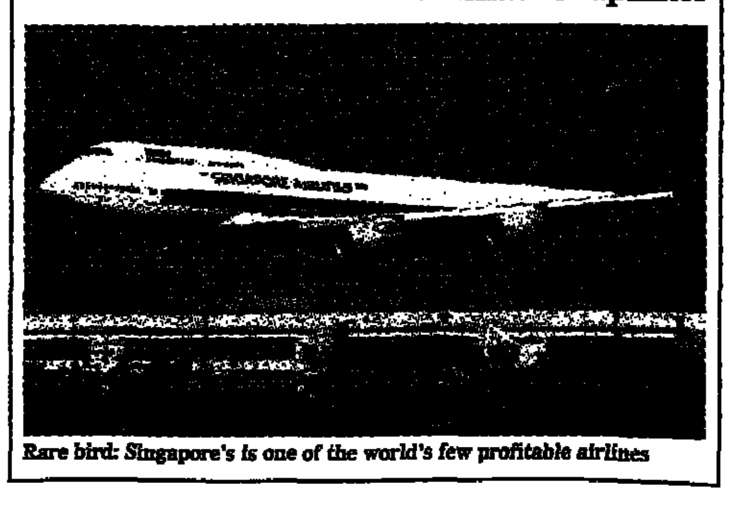
Is that why Boeing is now suffering a strike?
Not directly. The 12,000 went quietly, helped by generous early retirement terms. There are several reasons why 30,000 of the remaining workers are on strike, including a dispute over medical insurance. One reason is they object to Boeing contracting out more of its aircraft manufacture to other companies. Boeing says it has to in order to keep costs down.

So why is Boeing thinking of taking over McDonnell Douglas?
That is not certain. If it does, it will be because the two companies want to combine defence businesses. A takeover by Boeing may provide McDonnell Douglas with a graceful way to stop making civil aircraft. It is struggling to compete with Boeing and Airbus Industrie, the European manufacturer. It costs a fortune to design and build aircraft and, with orders scarce, manufacturers are offering heavy discounts.

Is that why Daimler-Benz Aerospace and Fokker are in trouble?
Yes. Germany and the Netherlands have the additional burden of high labour costs and a strong currency.

Why does anyone go into this business?
Some do it because they love aeroplanes. The others often ask themselves the same question.

Michael Skapinker



Rare bird: Singapore's is one of the world's few profitable airlines

MANAGEMENT

Authoritarian structures may be corrupting sound succession planning, reports **Vanessa Houlder**

Alternative routes to the executive suite

Succession planning is normally a civilised affair. Yet few issues present companies with such potential for conflict, ineptitude and procrastination.

At the General Electric Company, for example, speculation about who will replace Lord Weinstock, the 71-year-old managing director, has dragged on for years, causing uncertainty for managers and disaffection among shareholders. Concern about the apparent secrecy and pace of the search came to a head this month with the abrupt departure of one of its directors.

Lord Weinstock is not alone in his reluctance to name a successor. A survey last year of large US companies by Korn/Ferry International, a recruitment consultancy, found that only 34 per cent of chief executives had identified their successors either publicly or privately.

Nor is Lord Weinstock alone in his reluctance to share responsibility for the decision among the entire board. Another Korn/Ferry study found that most chief executives see the successor selection process as a very personal one – most involved the board only when and how they chose to.

The failure of top executives to plan for their departure does not surprise psychologists. "No one wants to give up power," says Mortimer Feinberg, head of BFS Psychological Associates, a New York consulting firm. "Even good executives get addicted to power and to the perks. It is the human condition."

A similar point was made by John Kay and Aubrey Silberston in a paper published in the National Institute Economic Review. "For all but the most remarkable of men and women, authoritarian structures are insidiously corrupting," they argued. "Leaders hang on to power too long, and many prefer to undermine those who might seek to replace them than to develop potential successors."

Kay and Silberston argue that chief executives should be limited to a fixed term of office. Most commentators believe this would be going too far. Nonetheless, companies are increasingly urged to take succession planning seriously, by instigating annual reviews by the entire board.

Despite many exceptions, such as Cedric Brown and Sir Richard Greenbury, the old notion that a hardworking school leaver could enter the ground floor of a company and rise to the chief executive or chairman's suite on the top is increasingly outdated

Discussion of this issue is not confined to the US and UK. The search for international investment has put corporate governance on the agenda more widely in many parts of the world.

In France, for example, there has been criticism of the role that nepotism and the old boy network (generally meaning graduates of the elite *école polytechnique* or the *école nationale d'administration*) play in securing top positions. "There is not enough commercial experience in many sectors of industry," says Jean-Michel Beigbeder, managing partner, France of Accord Group, the executive search group. "The meritocracy is coming slowly."

Critics say that in many companies the monarch-like "president director-general" is considered to rule with unchallenged power. Often the board members are drawn from a circle of external contacts, creating a glass ceiling which prevents employees making it to the top of the group.

Pressure to improve corporate governance in France led to the Vienot report, which was produced by a committee chaired by Marc Vienot, chairman of Société Générale, the banking group. Among the report's recommendations was the setting up of appointment sub-committees.

Initiatives such as the Vienot report – and the Cadbury report, its UK equivalent – demonstrate that companies are under pressure to introduce greater formality into succession planning. Yet even the best-intentioned companies are finding that succession planning has become a more difficult challenge.

A survey last year by the Conference Board, based in New York, found that nearly a third of companies have significantly altered their succession planning procedures within the last few years.

One reason is that the skills needed by a top executive are, in many cases, more demanding than in the past. Smaller boards and a reduction in the number of tiers of management have concentrated responsibility in the hands of the chief executive. The scope for decisive action has been heightened by technological change, international expansion and intensifying competition. Yet at the same time the new emphasis on teamwork and empowerment sometimes requires leaders to adopt a more subtle coaching style.

Another issue – highlighted in the Conference Board report – is organisational restructuring. As companies have introduced flatter structures, they have found it more difficult to give rapid promotions to promising employees. The old practice of sending high-flyers abroad to staff foreign operations and gain early responsibility has given way to the recruitment of local managers. The devolution of individual business units has created added difficulties for companies wanting to map out a varied career path for their staff.

Paul Allaire, chairman of Xerox, admits to struggling with this problem. "If you diminish the role of middle managers how do you ensure that you have a cadre of people with the right experience to choose the top management from? How do you pick people and train them?"

Certainly, many of the old truisms about climbing the greasy pole are no longer valid.

Despite many exceptions – such as Cedric Brown of British Gas and Sir Richard Greenbury of Marks and Spencer – the old notion that a hardworking school leaver could enter the ground floor of a company and rise to the chief executive or chairman's suite on the top is increasingly outdated.

Indeed, company loyalty is among the most threadbare of the old principles of succession. More than ever before, the top job is likely to go to an executive who has no prior knowledge of the company or its industry. Even companies with a long tradition of "growing their own timber", such as the Prudential, Barclays and ICI, have recently opted for outsiders for their top job.

Admittedly, the trend should not be exaggerated. In some businesses, graduates still have a good chance of rising to the top. Niall FitzGerald, just appointed next chairman of Unilever's UK arm, has been with the company since university.

Overall, some 20 per cent of the largest UK companies choose external candidates for their top jobs, according to a Korn/Ferry survey. Smaller companies – those with turnovers of less than £1bn – are significantly more likely to look outside their own ranks.

As companies break new ground in their choice of executives, they are re-evaluating the elaborate, formal succession planning procedures that have evolved over decades. These procedures keep track of high-flyers, who are then given the most challenging job assignments and most extensive training. In many businesses, shortlists are prepared of two or more potential successors for every position which is to become vacant within five years.

But the detail and complexity of this process is increasingly inappropriate for organisations undergoing significant change. "Some organisations are turning away from conscious succession planning because it is too complicated, when so much is changing," says Linda Holbeche of Roffey Park, a management institute in West Sussex. "People's experience is that succession plans broadly do not work."

This, for example, was the experience of Bank of America after undergoing frequent reorganisations because of acquisitions. More than 80 per cent of the 1,000 people tracked by its succession planning had left the organisation six years later, according to the Conference Board.

Many companies trying to create a more open and diverse culture are also uncomfortable with the notion of detailed succession planning. All too often, selecting high-flyers appears elitist, discriminatory and paternalistic. Increasingly, companies are trying to put responsibility for the development of people's careers on to individuals themselves.

At one of the UK's biggest drinks companies, for example, the personnel director is scornful of "people making an industry out of career management". "What percentage are critical?" he asks. "They are the people who will manage their own career."

Even those companies that continue to track managers' careers are being forced to be more open and less secretive, as a result of the culture shift away from lifetime employment. If someone knows that they are tipped for the top, it may stop them being poached by other organisations. Alternatively, being candid about someone's job prospects may persuade them to seek other employment.

But aspiring managers take their cue from what happens at the top of the organisation. So the tactics used by companies to pick top management are under ever greater scrutiny.

The drive towards greater openness has led to wider use of assessment centres at top levels within an organisation. These sessions, which often involve business simulations and open-ended discussions of strategic issues, are perceived as an objective way of assessing matters such as an individual's willingness to stand up to a chief executive and offer an alternative point of view.

Another relatively clear-cut and open approach is that adopted by Grand Metropolitan, which recently chose its new chairman to follow Lord Sheppard and, for the third time in nine years, the disappointed candidate swiftly quit.

Although this horse-race strategy of pitting internal candidates against each other, choosing the winner and promptly parting company with the loser has its attractions, it can lead to an unnecessary loss of talent and create a strife-torn organisation if protracted.

Another popular approach is the relay process, where a new president or chief operating officer is named to work with an incumbent chief executive for a period leading up to retirement. It has the advantage that the heir apparent can be further sized up and tends to clear the air early, pre-empting the usual jockeying for position.

Widening the lens to include outside candidates is, on the face of it, the most transparent, meritocratic method of finding a top executive. Moreover, when a company is in difficulties, there is widespread acceptance of the case for bringing in a chief executive from outside.

Yet the risks of appointing an external candidate can also be high, both for the company and the individual. The external appointee does not know the people, history or circumstances of the business. A clash of management styles and personalities with senior colleagues is relatively common.

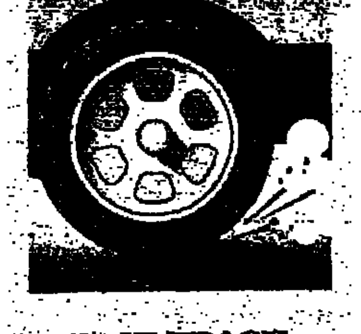
Moreover, companies that invariably recruit from outside at senior levels risk demotivating their employees. They may find it more difficult to attract the very high calibre of people on which they rely in the long haul.

They may also find recruitment from outside harder than they expected. "From our point of view there is a shortage of really good top managers," says Nigel Dyckhoff, director of Spencer Stuart, executive search consultants.

Kevin Delany of the human resource group of Coopers & Lybrand argues that companies have unrealistic expectations concerning the recruitment of senior executives from outside. "People have begun to realise there are not pools of talent out there to fill jobs very quickly."

Yet whatever the risks of recruiting at senior levels, it is a trend that is unlikely to reverse. As succession planning becomes more complicated and fluid, both managers and companies may need to explore their options.

Amid the uncertainty, one clear group of beneficiaries has emerged from the changes to succession planning. According to the Economist Intelligence Unit, the worldwide executive search industry is growing at more than 15 per cent a year. One of the few certainties to replace the old assumptions about career progression is that headhunters are prospering as never before.



FAST TRACK

Hutchison Mobilfunk

When René Obermann set out as a 23-year-old to earn the DM1,300 (£600) a month he needed to survive as a student, management issues were not at the forefront of his mind.

His plan to market personal telecoms equipment aggressively at a time when such products in Germany were still being sold conventionally was potentially risky.

After all, despite being one of the world's most advanced economies, Germany's telecoms market has until recently shown few signs of dynamism.

But what started, in Obermann's words, as a "small and friendly service" has since been bought by Hutchison Telecom, the Hong Kong-based telecoms group, and turned into Hutchison Mobilfunk, one of Germany's leading mobile phone service providers.

Annual turnover is now about DM230m and Obermann has about 100,000 customers. In order to keep up with the competition in the fiercely contested mobile phone market, Obermann has had to react with management tools which are novel compared with the usual German approach.

The workforce of about 200 is on first-names terms, an informality rarely seen in German companies.

Furthermore, where Obermann used to be able to deal with clients' complaints personally, Hutchison now has a customer retention unit which tries to persuade dissatisfied clients to stay with the company rather than change to one of the 10 competing mobile phone service providers.

Another three people work in a fraud prevention unit, where they have to decide within hours whether or not to cut off a mobile phone user who might be running up five-figure bills without any means of paying them.

In an effort to differentiate Hutchison Mobilfunk from the competition, the company has invested in a full-scale service department in Münster where technicians are able to return defective phones on average within two days.

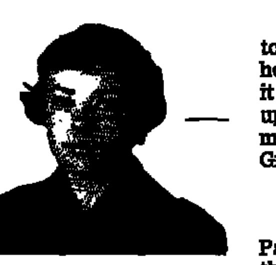
Meanwhile, the Asian way of doing business is coming to the fore at the Münster headquarters. Obermann used to have few misgivings about mentioning the company's turnover. Now such figures are strictly confidential, according to Hutchison internal guidelines.

While he also liked to refer to himself as a *Mittelständler* – part of the network of smaller, family-owned companies which make up 80 per cent of German industry – Obermann now talks about the *Konzern* referring to the Hutchison Whampoa conglomerate. With the resources of such a conglomerate, Obermann and the group's European management have to decide within the next 12 months how to expand.

Ultimately, however, Obermann insists that the key to success in the mobile phone market is service. "There is little to differentiate in hard terms," he says referring to the sort of services offered by competing mobile phone service providers. "But in soft terms you can make a big difference – and that means keeping those promises. We know that we cannot keep them all but we have to try to keep around 99 per cent."

Michael Lindemann

Promotions in the last-chance saloon



LUCY KELLAWAY

If the person pulling the pints at your local pub seems more than usually lacking in interpersonal skills, be nice to him. Talk to him. Let him feel he is getting a bit of real-life experience. For he may be a middle manager in the insurance industry, and his night job may be a last-ditch effort to get promoted.

According to Mark Boléat, the head of the Association of British Insurers, a few months behind the bar is just the thing for all those frustrated managers who are good enough at their jobs but who are somehow failing to advance. What holds them back is not that they are short of knowledge or experience, but that they cannot communicate to save their lives. So when they come to him suggesting a spell at business school to improve their prospects, he points them towards the pub instead.

This is bad news for the business schools. It must be hard enough trying to keep ahead of the competition, but if they are trying to compete with the Coach and Horses too . . .

A week or two ago, I forecast that managers would turn to gardeners for inspiration once they had tired of learning from sportsmen and from actors. This was meant to be a joke, but I should know by now that management is no joking matter.

A reader has drawn my attention to the appropriately named Robert Greenleaf, a retired AT&T executive who long ago said that the best organisational structure is not a pyramid but a garden, which encourages us to live within nature.

It is true that gardening has become well rooted in our business language: we "grow" companies these days more readily than we grow tomatoes. But anyone who thinks that the garden is the image of the benign organisation should think again. Gardens are cruel places in which the dead wood gets cut out, and the living wood is at the mercy of weeds, slugs and the whims of the gardener. Now that I think of it, it does sound rather like business after all.

Here is an interesting fact: the average business executive spends 60 hours a year on the telephone listening to Greensleeves, or to a recorded voice saying over and over again: "Your call has been held in a queue. It will be answered as soon as an operator is available." Sixty hours is more than a week a year. So if businesses answered their phones at once, everyone would be able to take an extra week's holiday without productivity suffering a bit.

There is a snag. If phones were answered more quickly, companies would have to hire more people to answer them. Sensible businesses know that this would mean more *delighted customers and therefore* fatter profits, but few seem prepared to make the investment. Instead they have started buying customised tapes that allow you to advertise and promote your company to callers while they hold. Doubtless there is a great market for this kind of thing, but I cannot see it having the desired effect. It is bad enough being put on hold, but to have a recorded voice telling you how wonderful a company is, when it cannot even be bothered to pick up the phone to serve you, strikes me as downright insulting. Give me Greensleeves any day.

Part-time work is a wonderful thing. It is good for you as it allows you to have a *life* outside work, and it is good for your employer as it gets better value out of you. And with such abundant demand and supply, it is surely the way of the future.

Last week I went to a conference *where I was disabused of these sentimental notions.* First, part-time working has only risen by 3 percentage points since 1980. Second, employers do not love their part-timers at all: I heard two bosses complaining about how their part-timers were inflexible, uncommitted and a damn nuisance, and how they wished they could be shot of the lot of them. And these bosses were not oldish, backward-looking men in suits, they were right-on women. Indeed, part-time work seems to have such a bad name that progressive employers now avoid using the labels full and part time, and prefer to talking about high and low basic hours. Now I feel really depressed. I am happy to be called part time, but can see nothing nice about being either "low" or "basic".

Which group of managers enjoys its jobs most? The answer, according to a survey published today by the *Institute of Management*, is management consultants. This sounds only too plausible. The survey also shows that the survival strategy adopted by companies during the recession has left their managers feeling insecure about their prospects, their finances and their workloads. Who was it who designed those plans in the first place? Management consultants.

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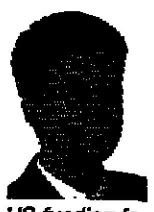
FINANCIAL TIMES

COMPANIES & MARKETS

Monday November 20 1995

MARKETS THIS WEEK

GERARD BAKER:
GLOBAL INVESTOR
The most troubling aspect of Japan's long slump in the last few years has been the apparently unstoppable trend of falling prices. The slide in the main price indices has evoked memories of the frightening deflation of the 1930s, *when nominal gross* domestic product fell at vertiginous rates for several years. **Page 20**



ROBERT CHOTE:
ECONOMICS NOTEBOOK
One of the more regrettable casualties of wrangling over the US budget in recent months has been the International Development Association, the World Bank arm which lends to poor countries at subsidised interest rates. Cuts in US funding for the IDA this year have put the scheme in jeopardy. **Page 20**

BONDS:
In spite of a string of scandals tarnishing the government, Spain's economic fundamentals have been improving. This is good news for Spanish government bonds. **Page 22**

EQUITIES:
Just as the international primary equity market looked like it was slowing down ahead of *Christmas*, some exciting new offerings have popped **Page 23**

EMERGING MARKETS:
This year's modest gains on many sub-Sahara bourses have done little to deter the interest of the *international* investment community. **Page 21**

CURRENCIES:
Sterling is likely to be centre stage this week with market nerves set to become frayed in the run-up to the UK Budget on November 28. **Page 21**

COMMODITIES:
The development of a co-ordinated strategy to ease the plight of the world's 800m hungry people is the purpose of a two-day conference, organised by the UN's International Fund for Agricultural *Development, beginning in Brussels today.*
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INTERNATIONAL COMPANIES:
Hewlett-Packard reported a 42 per cent jump in profits for its fourth fiscal quarter, but investors' *concerns about declining gross profit margins* drove the computer and electronic equipment manufacturer's share price down by about 5 per cent. **Page 19**

UK COMPANIES:
Shares in the National Grid Group, which is being demerged from the 12 regional electricity companies, are expected to open at up to 220p when trading starts on the grey market on Wednesday. **Page 18**

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Wallenberg in talks with GM on Saab

By Hugh Carnegy in Stockholm

Sweden's Wallenberg industrial empire said yesterday it was in close contact with General Motors of the US about the future of Saab Automobile following the Swedish car maker's recent dramatic return to heavy losses.

"We are worried about the situation. *We are discussing with GM* what to do about it," said Mr Claes Dahlbäck, chief executive of Investor, the main Wallenberg holding company which is the joint owner of Saab with GM.

Saab reported earlier this week it had lost SKr322m ($48.4m) in the third quarter, wiping out the company's profits in the first six months and leaving it with a nine-month loss of SKr127m.

The reverse, blamed largely on adverse currency movements, dispelled the optimism created last year when Saab achieved its first full-year profit since GM bought a 50 per cent stake and took over management control in late 1989.

"It is not just a question of the currency effect," Mr Dahlbäck said. "The volumes (of car sales) seem to be too low to get a sustained, acceptable profit level."

He said spending on marketing and new models were among the questions to be addressed, but he refused to elaborate further.

Investor assumed direct ownership of the Wallenberg share of Saab Automobile earlier this year *when it split up Saab-Scania into* its main constituent parts.

There has since been speculation that Investor, which is chaired by Mr Peter Wallenberg, might seek to sell its 50 per cent holding to GM. Both owners have together sunk more than SKr8bn into Saab Automobile in the past five years, as well as suffering accumulated losses of SKr11bn between 1989 and 1993.

Some analysts believe Investor will be reluctant to sink more capital into the company, which is likely to be required if Saab is to make the heavy investment it needs to broaden its narrow model range and achieve higher volumes. *This year* it is likely to sell about 100,000 cars.

However, the Wallenbergs have a record of loyalty to companies they have long been associated with and may be reluctant to admit defeat.

Mr Dahlbäck was speaking after unveiling a sharp increase in pre-tax profits at Investor in the first nine months from SKr2.3bn to SKr3.3bn. Investor groups shareholdings in a series *of Swedish blue-chips, including* Astra, the pharmaceuticals company, Electrolux, Ericsson and the forestry group Stora.

But the main profits engine was Scania, the heavy truck maker which it wholly owns. Scania profits after financial items rose from SKr2.4bn to SKr3.5bn in the first nine months. Saab aircraft, the other main wholly-owned Investor company, increased profits after financial items from SKr165m to SKr223m.

Investor intends to float up to 75 per cent of Scania, possibly early next year.

Investor's net worth at the end *of September* was *SKr52.8bn, or* SKr265 per share, compared with SKr43.5bn at the end of last year.

Peter Wallenberg, Investor chairman, whose group may sell its stake

C&W chairman may be forced to retire early

By Alan Cane and Peggy Hollinger in London

Lord Young, executive chairman of UK-based telecoms group Cable and Wireless, could be forced to step down earlier than he recently announced after a crisis meeting of non-executive directors today.

The meeting followed an acrimonious dispute between Lord Young and his chief executive, Mr James Ross, over the direction the company was taking. The two men now find it almost impossible to work together and the non-executive directors have been seeking a compromise.

Last week Mr Ross rejected a proposal under which he would have resigned in three months while Lord Young remained in his post until February 1997. It is possible that if today's meeting is not resolved to Mr Ross's satisfaction, he will resign immediately.

The non-executive directors will consider a fresh proposal, championed by four of the executive directors, that Lord Young should retire at the end of the financial year in March. Mr Ross would stay in his post for a further two to three years to see through the strategy of focusing on the Far East, Europe and North America, which he has been working on since arriving at the group in 1992.

The dispute became public after concern from institutions over C&W's frequent departures from this strategy; in particular that management has been distracted by a plethora of small deals in areas which have proved difficult to control and resource, such as St Petersburg in Russia, Khazakhstan, and Israel.

The Israeli deal, like many of the others, was personally negotiated by Lord Young and sealed in May. This is believed to have been the final straw for Mr Ross and the executive directors.

"We have been trying to do things with outside partners and things keep coming in from left field," said one director.

It has been apparent for many months that the conflict was generating unease in the company. The non-executive directors are thought to have decided initially that, after five and half years at the helm, it was time for Lord Young to go.

However, Lord Young was reluctant to step down. The non-executives then opted for a compromise package involving the early departure of Mr Ross, and the retirement of Lord Young on his 65th birthday.

Last week Mr Ross rejected this package, arguing it would damage C&W at a time of delicate negotiations, including a possible US deal with Nynex, the New York local telecoms operator.

The executive directors, irritated that so far they have had little part in the negotiations, will meet non-executive directors this morning. They will stress the difficulty of managing a company with an outgoing chairman and a chief executive whose future is uncertain. "If the situation drags on for 15 months ... it will drive C&W into the sand," one director said.

The non-executives will meet in the afternoon to discuss their concerns and are expected to hear Lord Young's views.

Unibanco to acquire Brazilian rival's assets for $1bn

By Angus Foster in Sao Paulo

Unibanco, the Brazilian bank, is to buy the assets of a main rival, Banco Nacional, to create one of Latin America's largest private sector banks. The combined bank will have net assets of about $2.5bn and total assets of more than $24bn, making it Brazil's second biggest private sector bank.

The takeover was agreed on Saturday after Brazil's central bank took special administrative control of *Nacional, which has* been suffering heavy withdrawals and liquidity problems. The central bank appeared to have acted to force the hands of Nacional's controlling shareholders, which had been discussing a merger with Unibanco but had failed to agree a price.

Nacional is due to open normally this morning and central bank president Mr Gustavo Loyola assured customers there was no reason for alarm. "Nothing changes on Monday," he said.

Mr Tomas Zinner, president of Unibanco, said the bank paid "about R$1bn (US$1.04bn)" for *Nacional's retail banking and* international operations. He said the purchase would give the expanded bank greater scale and more clients.

Nacional's investment banking and insurance operations will remain under central bank administration and are expected to be sold shortly. Analysts say Unibanco may dispose of up to 100 of Nacional's 335 branches to avoid overlap with its own 463 outlets. Both Citibank and Bank of Boston are thought to be interested in increasing their small branch networks in Brazil.

Nacional's takeover resolves *the most serious problem for Brazil's* banking sector, which has had to restructure since the new Real currency led to a sharp fall in inflation last year. Banks have been seeking new sources of income now inflationary profits have fallen.

A credit squeeze earlier this year also weakened some institutions and led the central bank to take control or shut several of them. Banco Economico, *formally* Brazil's eighth largest private sector bank, was the most spectacular casualty when it was placed under central bank administration in August.

Further banking problems are expected since most analysts believe Brazil is over-banked and credit quality often poor. It has 246 banks, many with few customers, and several large banks are weakened by family rather than professional management.

Nacional and another big private sector bank, Bamerindus, had been the victims of speculation about poor liquidity *recently. Uncertainty about* Nacional's situation last week triggered worries about other, smaller institutions.

The central bank, which insists weaknesses lie with certain banks *rather than* the whole system, has taken steps in recent weeks to help mergers take place.

Pechiney sell-off raises concern

By John Ridding in Paris

A sharp fall in the price of Pechiney's investment certificates and signs of weak demand have raised concerns about the privatisation of the French aluminium and packaging group.

Mr Jean Arthuis, the French finance minister, said on Friday he had no plans to suspend the sale, which was started last week with the launch of pre-marketing. During this period, which is expected to last a few weeks, public investors can make non-binding reservations for shares in the group.

Initial interest, however, has appeared weak. This partly reflects the poor performance of *recent French privatisation* issues, most of which are trading at a sharp discount to their issue price. Investors are also wary of the cyclical character of Pechiney's markets, and the downturn in aluminium prices.

Of immediate concern for the French government is the decline in Pechiney's non-voting investment certificates which have fallen almost 20 per cent since the announcement of the forthcoming privatisation. The fall has taken the investment certificates close to the floor of a guideline share price range for institutional investors issued by the government.

Mr Arthuis has said that the FFr187 to FFr215 per share price range is non-binding and is intended only as an indication. However, he has previously said the French government would not sell state corporate assets at a significant discount to their estimated value. At last Friday's closing price of FFr207, the investment certificates were only slightly higher than the floor level, given proposed exchange terms of 1.1 share for each certificate.

The sale of Pechiney, in which the French government has a 56 per cent stake, is expected to be the last big privatisation operation of the year. It is important in maintaining momentum in the conservative government's sell-off programme.

Analysts in Paris said the government would wait to see the development of demand for Pechiney shares and said that a strong rally in the stock market, which has gained almost 10 per *cent over* the past three weeks, could improve investor sentiment.

This week: Company news

WALT DISNEY

Eisner animated over takeover transformation

This week's *fourth*-quarter figures from Walt Disney will have a provisional feel to them. Disney's $19bn takeover of Capital Cities/ABC will not close until early next year, writes Tony Jackson.

According to Mr Michael Eisner, Disney's chairman, the combination of the two companies will throw up more synergies than he has managed to work out yet. In other words, Disney will be transformed.

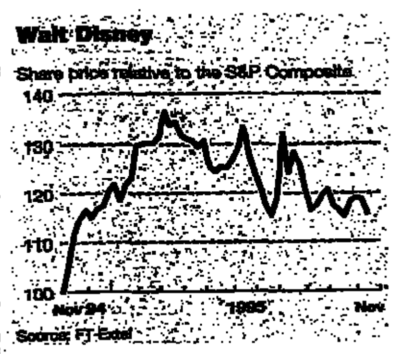
Growth at the old Disney, meanwhile, seems to be slowing as the year progresses. At the nine-month stage, earnings were up 30 per cent. The final quarter is expected to produce earnings of around $0.50 per share, a rise of some 20 per cent.

Partly, this is because *Disney's* animation division is the victim of its own success. Last year's profits were bloated by the cartoon feature The Lion King, which became one of the most financially successful films in history. But this year's cartoon feature, Pocahontas, is proving slightly dull by comparison.

In addition, film profits last year were helped by the direct release to video of a cheap follow-up to Aladdin, The Return of Jafar.

Disney has some other direct video releases up its sleeve this year, but they will not be reflected in the final quarter's results.

Meanwhile, the Disney theme parks are having a very good year, with attendance in both California and Florida boosted by foreign visitors drawn by the weak dollar. Even poor old Euro Disney, whose results were announced last week, has crept into profit for the first time, with the number of visitors up 21 per cent. In the quarter, it made $23.3m. Disney's 49 per cent share in that will come as a welcome change: in last year's final quarter, its share of Euro Disney's losses came to $55m.



VODAFONE

Fraud begins to cloud the horizon

Vodafone, the UK's largest mobile phone operator, is expected to report interim profits before tax of between £205m and £225m ($323.9m-$355.5m) on Tuesday against £186.4m last time.

In spite of the seemingly unstoppable growth of the UK cellular business, however, questions will be asked about the level of bad debt and fraud the company can expect as it moves further into the residential market. Last year, the company improved profitability in spite of fraud and bad debt which cost it in total about 2 per cent of UK turnover.

Some service providers, the intermediaries between the customer and the operator, are already setting call charge limits to protect both their customers and themselves.

This may limit usage which, some argue, could prove a blessing in disguise because of questions about the capacity of Vodafone's older technology analogue network to support new customers.

Close attention will be paid to the company's estimates of the speed with which it can move both new and existing customers to the newer digital technology. Vodafone has been very successful in attracting subscribers to its analogue network but this is now close to capacity and future expansion depends on moving customers to digital services which make more efficient use of bandwidth.

OTHER COMPANIES

RCS worries come to a head for Gemina

Directors of Gemina, the Italian investment company, and RCS Editori, its publishing subsidiary, meet today to discuss the financial problems of RCS.

Mounting losses at the publisher were one of the reasons why Gemina last month shelved its controversial plan to merge with Ferruzzi Finanziaria (Ferfin), the holding company. The companies are expected to announce a recapitalisation and restructuring of RCS, which reported *a group loss of* L440bn in 1994 and a further L276bn ($170.8m) in the first half of this year. Gemina, which is controlled by Italy's business establishment, and RCS, 93 per cent of which is owned by Gemina, are also the subject of a continuing judicial inquiry into allegations of falsification of accounts.

■ Mannesmann: The German engineering group today reports its nine-month results, which are expected to show continued strong growth in its engineering, plant, automotive components and telecommunications activities. The group reported a net profit of DM141m ($101.4m) for the first six months, and analysts have sounded positive about the group because many mechanical and plant engineering contracts are traditionally booked in the second half of the year.

■ Viag: On Thursday, Viag becomes the second of the major German electricity utilities to report its nine-month results after Veba did so recently. The Munich-based group reported six-month operating profits of DM1.49bn ($1.07bn), on course for the forecast operating profits of DM2bn for the full year, which translates into earnings per share of DM35. Analysts will be watching for more details about the impact of the lower dollar on the group's aluminium and packaging businesses.

■ Henkel: The third-quarter performance of Henkel, the German consumer goods group, is expected to *have followed the modest upward trend* of the first half. With persisting price pressures in the European consumer goods industry, one analyst predicted an increase in turnover from DM10.54bn to about DM10.6bn ($7.6bn) for the first nine months, with pre-tax profits up from DM485m to about DM540m.

■ Nestlé: The group's annual autumn press conference, which takes place on Wednesday, is usually the occasion for Mr Helmut Maucher, the chairman, to hint vaguely about the course of business and for a good lunch. The only figure to emerge is that for 10-month sales, which are likely to be flat at about SFr46bn ($40.7bn) because of the strong Swiss franc.

Speculation has been rising that Mr Maucher, who will be 68 next month, may finally pass on the baton. The name most often mentioned as a successor is that of Mr Peter Brabeck, the group's marketing and grocery products chief.

Companies in this issue

National Grid shares likely to open at 220p

By David Wighton

Shares in the National Grid Group, which is being demerged from the 12 regional electricity companies, are expected to open at up to 220p when trading starts on the grey market on Wednesday, valuing the company at more than £3.5bn. Although most analysts believe the shares are worth about 200p, heavy buying from institutions is expected to keep the price above that level for some time.

On Friday, it was announced that the National Grid would become a constituent of the FT-SE 100 index as soon as official trading opens on December 11.

As a result, there is expected to be heavy demand from funds which track the index. One analyst calculates that the main index funds will need to buy about 150m shares to gain a neutral weighting.

There will be particular pressure on the share price because less than half the shares are expected to be in public hands initially. Of the 12 regional electricity companies which own the Grid, only six are committed to distributing their holdings to their shareholders.

Four – South Western Electricity, Eastern Group, Manweb and Norweb – have been taken over. Their holdings have now passed to their new parents – Southern Company of the US, Hanson, Scottish Power and North West Water – which have agreed to sell the shares within a year.

Southern Electric and Midlands Electricity, which are the subject of bids from National Power and PowerGen, will this week announce whether they will distribute their holdings to shareholders before trading starts.

The National Grid prospectus will be published on Wednesday along with the announcement of its interim results. The Grid has already forecast that its dividends will rise by 8 per cent to £175m this year and by a further 8.6 per cent in 1996-97. At 200p, the shares would trade on a prospective yield of 6.3 per cent.

● Welsh Water has postponed discussions with South Wales Electricity over a possible takeover until after National Grid dealings begin. It believes the grey market will clarify the difference of opinion over the valuation of Swalec.

Mayborn cash call for £5.3m

By Motoko Rich

Mayborn, the baby products and fabric dyes group, is launching a 2-for-15 rights issue at 210p to raise £5.3m for a capital expenditure programme.

The group, which bought Maws, the baby products manufacturer, earlier this month, will use the proceeds from the issue of 2.65m shares to expand several factories.

Mr Ian Hartley, financial controller, said the group would expand the Maws manufacturing facility and upgrade the group's baby products factories in China and Northumberland. It would also improve its fabric dye division.

The Samuel family, which owns 60 per cent of Mayborn's share capital, is not taking up its full rights and its holding will fall to 53 per cent.

The issue is underwritten by 3i Corporate Finance. On Friday the shares rose 6p to 246p.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Crown Cork & Seal (US)	Carnaud MetalBox (UK/France)	Packaging	£2.45bn	Europe formally approves
Ivax (US)/Nycomed (Norway)	Ivax Nycomed (US/Norway)	Pharmaceuticals	£2.1bn	Hafslund pulls out
PacifiCorp (US)	Powercor (Australia)	Electricity distribution	£1bn	Victoria continues privatising
Bayer (Germany)	Unit of Monsanto (US)	Plastics	£374m	Major cash buy
Uunet Technologies (US)	Unipalm (UK)	Computer services	£152m	Stock rise ups value
Windsor Food (US)	Unit of United Biscuits (UK)	Food	£54.8m	Keebler disposal
Pearson (UK)	ACI (US)	Television	£25.3m	Another global TV step
Global Village Telecommunications (US)	KNX (UK)	Computer services	£18m	Continues ISDN deals
France Télécom (France)/Olivetti(Italy /Bell Atlantic (US)	JV	Telecoms	n/a	Rival to Telecom Italia
ABB (Sweden/Switzerland)	William Steward (UK)	Electrical engineering	n/a	Strengthening UK position

Govett plans UK disposal to AIB

By Peter John

Govett & Co, the international fund manager, is expected to sell its UK arm, John Govett, *to Allied Irish Banks* within the next fortnight for about £105m.

On Friday the company was awarded about $1m (£600,000) in costs for the first of two cases in a suit which was thrown out of a Californian Court some months ago.

Assuming the sale goes through AIB will acquire a $4.1bn fund at a price equal to 8.8 per cent of the funds in mangement.

It would also help Govett to overcome an internecine saga which has caused profits to drop and its share price to fall by 35 per cent. In February, Govett's American Endeavour Fund, a Jersey-registered investment company specialising in mezzanine debt financing in the US, sacked its parent and sued for a catalogue of alleged offences including fraud and negligence.

It claimed Govett and its chairman, Mr Arthur Trueger, used their positions as managers of the Endeavour Fund, to their own advantage and against the interests AEF.

As a result, the acquisition of the US-based fund management business of Duff & Phelps, had to be shelved. The subsequent publicity meant that Govett's interim profits were halved and the company issued a profits warning for the year.

Govett decided to sell its UK arm and launched a $185m *damages suit against* Endeavour.

It is also trying to restore its battered stock market credibility. From a price of 350p before the law suit, the shares were trading at 228p on Friday. However, it is believed the price predicted for the sale will match the price Commerzbank of Germany paid for rival Jupiter Tyndall in March and will give Govett an asset value of about 300p a share.

The proceeds will allow the company to focus on its North American interests.

A need to concentrate the brew?

Roderick Oram on problems facing the Carlsberg-Tetley venture

Most British brewers are of less-than-optimum size given growing concentration among retailers and increasing cross-*border competition from the* most efficient continental brewers, Carlsberg, the Danish *brewer*, believes.

"Nobody has made any attempt to stop the concentration of retailers *so* producers will have to concentrate too," says Mr Michael Iuul, Carlsberg's *head* of *international* operations. Being bigger is also critical for UK producers if they are "to stand up to the most efficient continental brewers."

Most British brewers need to restructure their operations to match production costs of the best on the continent. City estimates put the market share of Carlsberg-Tetley, the Danish brewer's UK joint venture with Allied Domecq, at about 15 per cent, down two or three percentage points since they pooled their breweries in 1992. Scottish & Newcastle leads with about 27 per cent after acquiring Courage, while Bass has about 19 per cent. Whitbread is somewhat smaller than Carlsberg-Tetley.

Mr Iuul declines to comment on how Carlsberg-Tetley could grow or form part of a larger brewing enterprise. Allied says *its priority* with the joint venture is to improve its performance through a £60m *restructuring. Its profits* have fallen by about two-thirds since it was formed because of slow *integration, loss of* market share, a shift to lower margin sales to supermarkets and *off-licences* and *deep discounting* in the pub trade.

It is no secret in the City, *however, that Allied is also* seeking a buyer for its stake, carried on its books at £260m plus £40m of debt. Bass and Whitbread have shown interest but some analysts consider Carlsberg might be interested in exercising its right of first refusal and take full control.

"I'd be sad if Allied decides to exit but Carlsberg is here to stay," Mr Iuul says. "As long as Carlsberg-Tetley is run efficiently and well, I'm not too worried about who the other shareholder is as long as they are entirely professional."

"Carlsberg needs to tie up with someone but it will be hard for them to find a partner *who will let them keep control,*" one analyst says.

Colin Beere

Michael Iuul: being bigger is critical for UK producers

A number of knotty issues need to be settled if Carlsberg is to secure another partner. The two biggest are brand conflicts between Carlsberg and potential new investors and the supply agreement between the joint venture and Allied Domecq's large pub chain. Allied Domecq pays about £20m-£30m a year more for its beer than it would on the heavily discounted open market, analysts estimate.

The agreement expires in December 1997 but profit warranties run two more years. Thus, Allied would want full value for its stake to compensate for the high beer supply price. On the other hand, a buyer would seek a lower price to reflect the drop in the joint venture's profits when the agreement ends.

Analysts believe the issues are so complicated that Allied's *exit will be complex.* "And whatever happens, Carlsberg-Tetley will require further *heavy restructuring," one says.*

Pearl Assurance overhauls structure

By Alison Smith

Pearl Assurance, one of the two UK subsidiaries of Australian Mutual Provident, is to overhaul the structure of its 4,000-strong sales force and *revamp its product range as it* seeks to adapt to the harsh and fast-changing environment for *life assurance* in the UK.

Thousands of Pearl employees will be told today of the plans for "New Pearl" – as the changes are known internally.

The shake-up of the sales force will focus on switching away from a system in which each sales agent covers an individual area.

The Pearl sales force is one of the largest in the life assurance sector, but like other "home service" companies it has suffered from the high costs of its traditional method of doing business, in which agents go regularly to customers' homes to collect premiums.

The new strategy, devised in conjunction with management consultant McKinsey, is intended to make a virtue out of the different skill levels within the sales force, and to ensure that those with the *most experience spend most* time in selling instead of in other activities.

As a further move to focus sales agents' activities, a central telephone line will be set up to handle straightforward customer queries, such as changes of address.

At the same time, the product range will be streamlined from 27 products to 13. The new range will be more flexible and include, for example, premium holidays.

The changes will be introduced from early next year.

Pet City will be biggest Aim stock

By David Blackwell

Pet City Holdings, the chain of 35 supermarkets specialising in products for pets, is planning to quadruple in size by the turn of the century.

The pathfinder prospectus, published today, shows that *the group hopes to open* more than 40 stores in 1999, taking the total to 148.

"I believe we can easily achieve this rate of expansion for our type of store," said Mr Richard Northcott, chairman.

The group is hoping to be valued at about £50m after floating on the Alternative Investment Market. It is raising £10m through a placing in order to fund the expansion.

Shares in the group, which will become one of the biggest companies on Aim, are expected to be priced on December 5.

Henderson Crosthwaite Corporate Finance is both adviser and broker to the issue.

In the 69 weeks to July 29 sales were £45.5m and operating profits £100,000. The group ended the period £1.5m in the red after £300,000 of interest and £1.3m of store opening costs, which are written off as they occur.

The pathfinder projection *suggests that if the group is* expanded to 148 stores by July 1999, profits before interest and tax would be £8.9m on sales of £210.8m.

Neither Mr Northcott or Mr Giles Clarke, chief executive, will be selling any shares. Mr Northcott, who was a pioneer of DIY retail sheds with Dodge City, and Mr Clarke, who was a co-founder of Majestic Wine Warehouses, each have a 20 per cent stake.

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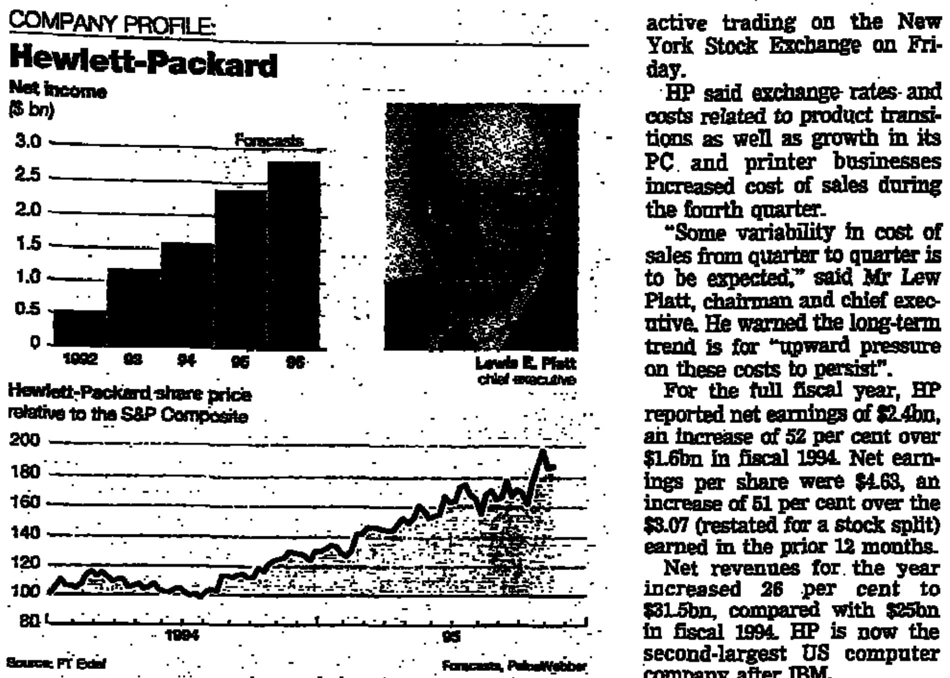
COMPANIES AND FINANCE

Hewlett-Packard disappoints

By Louise Kehoe in San Francisco



Hewlett-Packard reported a 42 per cent jump in profits for its fourth fiscal quarter, but investors' concerns about declining gross profit margins drove the computer and electronic equipment manufacturer's share price down by about 5 per cent.

HP's results were above Wall Street expectations. Net earnings for the quarter ended October 31 were $678m, or $1.29 a share. This compares with earnings of $477.5m, or 92 cents a share, in the same quarter last year. Revenues for the quarter jumped 29 per cent from $7bn to $9bn. Orders were up 27 per cent at $8.8bn.

HP attributed much of its growth in the quarter to strong sales of personal computers, printers and multi-user computers. HP's recent entry into the US home computer market has boosted its PC sales significantly, analysts noted.

The company increased PC shipments nearly four-fold during the third calendar quarter, according to International Data, a market research group. It estimates that HP shipped 305,000 PCs during the quarter, enabling it to leap-frog Dell Computer and Gateway 2000 to become the US's fifth-largest PC maker.

However, increased sales of low-margin PCs and printers, which accounted for an estimated 50 per cent of HP's revenues, cut into overall gross profit margins, which declined from 36.2 per cent of revenues in the third quarter to 34.7 per cent in the fourth quarter.

The drop in gross margins was larger than most financial analysts had expected, prompting investors to sell. HP shares slid $4¾ to close at $88¼ in active trading on the New York Stock Exchange on Friday.

HP said exchange rates and costs related to product transitions as well as growth in its PC and printer businesses increased cost of sales during the fourth quarter.

"Some variability in cost of sales from quarter to quarter is to be expected," said Mr Lew Platt, chairman and chief executive. He warned the long-term trend is for "upward pressure on these costs to persist".

For the full fiscal year, HP reported net earnings of $2.4bn, an increase of 52 per cent over $1.6bn in fiscal 1994. Net earnings per share were $4.63, an increase of 51 per cent over the $3.07 (restated for a stock split) earned in the prior 12 months.

Net revenues for the year increased 26 per cent to $31.5bn, compared with $25bn in fiscal 1994. HP is now the second-largest US computer company after IBM.

Commenting on the outlook for the year ahead, Mr Platt said HP had seen signs of an easing in component shortages, which have constrained growth over the past year. The competitive environment would, however, "remain very challenging", he said.

Alcoa in pledge to Alumix employees

By Kenneth Gooding, Mining Correspondent

Aluminum Company of America will keep all the present 2,700 employees of Alumix for at least five years when it takes over the principal assets of the state-owned Italian group at the end of this year.

This very unusual undertaking was given when Alcoa, already the world's biggest aluminium group, agreed to buy the assets of Alumix, Italy's only aluminium producer, from the liquidator of EFIM (Ente Participazione e Finanziamento Industria Manufatturiera) for US$280m.

The US group also pledged to spend an additional $125m over the next five years at the Alumix plants, primarily on health and safety conditions.

Among the assets Alcoa is to buy are Alumix's smelter at Porto Vesme on the island of Sardinia, with an annual capacity of about 130,000 tonnes of aluminium, and a small, 40,000 tonnes a year smelter, previously owned by Alusuisse and located at Fusina, near Venice.

The Sardinian smelter was always a controversial project because Italy has no reserves of bauxite (aluminium ore) and is highly dependent on imported energy, the biggest cost factor in aluminium production.

However, the plant was established partly to provide jobs. In the early 1990s Alumix, which is an integrated business with various downstream operations, employed more than 7,000.

Alcoa insists, however, that the bundle of assets it is buying is profitable. It says the smelters are not particularly high-cost but are placed about mid-way when measured against the rest of the world's smelters.

Included in the sale are a rolling mill with capacity of 140,000 tonnes near the Fusina smelter and four aluminium extrusion plants: at Bolzano, Fossanova, Feltre and Iglesias, with a combined capacity of 70,000 tonnes.

There is also an extrusion die shop at Mori and a network of distribution centres and sales offices. In addition, Alumix has a 6 per cent interest in the Halco bauxite mining consortium in Guinea, West Africa, which is also included.

Alcoa says the acquisition will fit well with its existing Continental European operations, adding a strong presence in the south to those of Alcoa Nederland in the north and its Kofem joint venture in Hungary in the east. These Alcoa companies also produce rolled and extruded aluminium products.

Alumix will add annual sales equivalent to about $550m to Alcoa's present European turnover of $1.3bn.

Even though it is successfully privatising Alumix, the Italian government still faces an inquiry by the European Commission about L400bn ($251m) given by EFIM to Alumix to cover previous losses and as a capital injection.

EFIM itself was put into liquidation in 1992 with debts of L1,300bn.

Japanese construction groups down

By Emiko Terazono in Tokyo

Japan's leading construction companies posted sharp declines in sales and profits for the six months to September.

The companies saw their margins squeezed and faced a sharp fall in revenue from completed construction projects because of a decline in orders during the previous terms.

Although growth in private sector orders remained sluggish, those from the public sector have picked up as the government has used public works projects to boost the economy.

New construction orders bottomed out for the companies, with Obayashi posting a 19 per cent rise and Taisei a 17 per cent increase. Shimizu and Kajima each received Y40bn ($391m) in orders relating to the reconstruction of Kobe, which was hit by an earthquake earlier this year. Meanwhile the decline in interest rates contributed to lower interest payments, improving the companies' financial balance.

The profitability of completed construction works deteriorated, with Kajima posting a *job completion profitability* ratio of 12.8 per cent, down 0.3 points, and Taisei a 1.5 point decline to 10.1 per cent. Taisei said it would cut its interim dividend payment by Y0.5 per share to Y3.5.

For the full year to March, the leading four companies expect to report declines in unconsolidated sales and profits. Kumagai Gumi expects a 26.6 per cent fall in recurring profits, but predicts an 18.1 per cent rise in sales thanks to an increase in shorter construction projects.

New orders from the private sector were expected to remain stagnant due to the prolonged slump in the property markets, though analysts forecast a slight pick-up in capital investments by manufacturers. But public sector orders are expected to remain firm, lifting the overall order figure.

Full-year consolidated results for some companies are likely to be affected by special losses. Taisei plans to increase its efforts to dispose of bad assets by selling a hotel owned by a US unit in Long Beach California during the second half of the business year and projects a special loss of Y5bn. Kajima is also likely to write off some Y4bn due to property sales and the liquidation of its US affiliates.

Kumagai will post Y23bn in extraordinary losses due to consolidation of its domestic and overseas businesses, but plans to cover it through sales of stocks and real estate.

JAPANESE CONSTRUCTION COMPANIES

	Sales (Ybn)	Per cent	Recurring profits (Ybn)	Per cent
Shimizu	688.3	-21.6	11.8	-69.6
Taisei	644.7	-4.6	13.6	-10.2
Kajima	555.8	-33.7	9.0	-70.9
Obayashi	500.6	-32.4	10.7	-61.6
Kumagai Gumi	358.2	+8.5	4.3	-15.9

Agreement with Virgin Atlantic bolsters MAS

By Kieran Cooke in Kuala Lumpur

A code-sharing agreement with Virgin Atlantic Airways that nearly doubled capacity on flights to London was one of the main reasons behind a 48 per cent jump in pre-tax profits at Malaysia Airlines (MAS) for the six months ending September 30. MAS saw its pre-tax profits expand to M$150m (US$59.3m), compared with M$101m the same period last year.

In June this year MAS began a code-sharing agreement with Virgin, giving the Malaysian carrier an additional six flights each week to Heathrow.

"The increased usage of our aircraft with the addition of flights plus new destinations were the main reasons for our profit growth," said Mr Tajudin Ramli, chairman of MAS.

Mr Tajudin, who took control of MAS following a highly leveraged M$1.79bn buy-out late last year, said profits over the period would have been higher if the code-sharing arrangement with Virgin had taken off as scheduled in March.

Turnover during the period rose 18 per cent to M$2.75bn on the back of a 35 per cent increase in passengers carried. Mr Tajudin said the increase in turnover was achieved without expanding staff but by improving productivity and better utilisation of aircraft. He said passenger revenue contributed more than 75 per cent of turnover, with the rest coming from cargo and subsidiaries.

Investment and other income, excluding extraordinary items, increased by 64 per cent to M$87m over the period, mainly due to leasing out of aircraft to Mauritius, the Maldives and Burma. An extraordinary item of M$15m was due to a insurance claim for the loss in a crash earlier this year of a Fokker F-50 aircraft.

Mr Tajudin said he had plans to turn MAS into "the largest, most successful and most respected airline in the world". MAS has entered code-sharing arrangements with five carriers – Ansett Australia, Ansett New Zealand, British Midlands, Virgin Atlantic and Canadian Airlines International. The airline has also recently signed an agreement to increase flights to Australia from 15 to 25 a week, analysts said.

They said that while the figures marked a considerable improvement in the fortunes of the Malaysian carrier, there were still concerns about debt caused by an ambitious fleet expansion programme which involved MAS taking delivery of more than 70 aircraft between 1991 and 1996.

Group debt is now estimated at more than M$6bn. In the previous six months interest on borrowing increased by 45 per cent to M$210m. Interest payments are expected to increase further with the delivery of two Airbus A330 aircraft in the second half.

MAS said it expected traffic demand growth to continue in the second six months, with passenger numbers in the 12 months forecast to increase by 14m. Mr Tajudin said global airline yields would continue to be under pressure in the second half due to industry excess capacity, but MAS should be able to withstand the pressure.

NEWS DIGEST

Isetan lifts interim earnings by 31%

Isetan, a leading Japanese department store, reported a sharp rise in interim profits for the half year to September. The company posted 31 per cent growth in non-consolidated current profits to Y1.2bn ($11.74m) on a 1.3 per cent decline in sales to Y192.3bn. Operating profits expanded by 31.6 per cent to Y3bn. Net profits increased 30.7 per cent to Y605m.

Isetan's non-operating expenses during the first half included Y400m for the expansion of a store in a suburb just outside Tokyo, while the retailer cancelled all its tokkin, or special trust fund accounts, worth Y7.5bn. For the full year to next March the company forecasts the first rise in annual sales and profits in four years. Isetan expects recurring profits – before tax and extraordinary items – to rise by 2 per cent to Y6.5bn on flat sales of Y411bn. After-tax profits are expected to grow 3.4 per cent to Y2.6bn. *Emiko Terazono, Tokyo*

Success for Canadian National

The privatisation of Canadian National Railway has been hailed as one of Ottawa's most successful spin-offs as the Montreal-based company's share price surged in its first day of trading on Friday. CN shares closed at C$20.25 up from the C$16.25 issue price of the first of two annual instalments totalling C$27.

A trader at Nesbitt Burns, one of the issue's lead underwriters, said volumes were extremely heavy, with demand coming both from US and Canadian investors. The shares are listed on the Toronto, New York and Montreal exchanges.

About 40 per cent of the C$2.3bn (US$1.7bn) issue was sold outside Canada, mainly to institutions which already have an exposure to US railway stocks. The CN issue is Canada's biggest privatisation to date.

Unless the share price tumbles in coming months, as happened in the early 1990s with Petro-Canada, the Calgary-based oil and gas group, CN's success is likely to prompt further spin-offs by the federal government and the provinces. *Bernard Simon, Toronto*

Grupo Televisa revenues steady

Grupo Televisa, Mexico's largest media group, has recorded virtually unchanged revenues from the prepayment advertising scheme which had previously provided between 70 per cent and 80 per cent of its revenues. Deposits for the 1996 scheme stood at 4.024bn pesos ($523m) on November 15, a 0.3 per cent increase in real terms from the previous year.

Analysts said receipts had held steady in spite of the Mexican recession because of attractive bonus plans offering clients free extra advertisements. It is also possible that some of the deposits made for 1996 may be allowed to be used for 1997, implying lower revenues for next year. *Daniel Dombey, Mexico City*

FINANCIAL TIMES MARKETS THIS WEEK

Global Investor / Gerard Baker in Tokyo

A time for the customer to benefit

The most troubling aspect of Japan's long slump in the last few years has been the apparently unstoppable trend of falling prices. The slide in the main price indices has evoked memories of the frightening deflation of the 1930s, when nominal gross domestic product fell at vertiginous rates for several years.

Though a repeat performance on that scale is most unlikely – not least because the authorities now seem rather more aware of the risks – the prospect of further falls in the price level unnerves investors. They see in it not simply the continuing implosion of asset values but also enormous potential damage to corporate profitability. It may not be a 1930s scenario of classic Keynesian deflation, but falling prices still eat away inexorably at corporate margins.

So as Japan looks set to record its third successive quarter of declining nominal GDP, how big are the risks?

Official figures suggest prices in the shops have been just about flat for more than a year, but there is plenty of reason to believe they understate deflation. The basket of goods from which prices are calculated has failed to pick up the *significant substitution that* has occurred – almost a revolution for Japan – in the last few years.

For example, two years ago, that internationally-recognised economic yardstick, the Big Mac, cost more than Y350 in Tokyo. Today it costs Y280. Yet the changing patterns in consumer behaviour that has wrought – in essence less sushi, more burgers – have *clearly not been properly* reflected in the figures. More reliable estimates suggest prices are falling at a rate of about 2-3 per cent a year.

Some very steep declines in import costs lie behind the fall. Wholesale prices have been in negative territory for more than three years, pushed there largely by the rising yen.

Deflation at the wholesale level, however, is nothing new. In the last ten years there have only been 26 months when wholesale prices have actually been rising. As a nation that imports almost all its raw materials and much of its food, most of it denominated in US dollars, Japan's input prices are almost inextricable from changes in the exchange rate.

Until the most recent recession, falling wholesale prices were barely reflected in consumer price changes. In the same ten year period there were, until this year, only three months when consumer prices had also fallen

In other words, for most of the last decade deflation has been almost wholly benign for Japan as it has benefited from improving terms of trade. But on the whole those benefits have gone into company margins and not the consumer's pocket.

Contrast that with how wholesale and consumer prices *have behaved in the last two* years. Input prices have been falling at a much slower rate than in the last period of steep rises in the currency in the mid-1980s. But this time retail prices have also been falling. The gap between wholesale and consumer price declines has now almost disappeared.

So what has changed this time to force companies to pass on benefits of the strong yen to their *customers?*

One view is that there has been a regulatory revolution. Japan's notoriously high prices, it is argued, are being undercut by deregulation and the dismantling of the byzantine distribution network.

It is an attractive argument, invoking as it does the revolutionary spirit, but it does not really stand up to much scrutiny. True, the changes to the laws on large scale retailing, which once prohibited anything larger than a corner shop opening in prime retail areas, have helped alleviate the consumer's burden. But most of the distribution network remains as it was decades ago.

Of much more significance has been the depth of the slump in domestic demand. In the mid-1980s, the yen's surge occurred in only the mildest of recessions. This time the economy's collapse has been almost *biblical. Faced with the* stay-at-home customer, companies have had to cut prices deeply.

So corporate profits ought to be in freefall as this time consumers take the spoils from the yen's surge.

Curiously enough, they are not. We are in the middle of the Japanese half-year reporting season, when almost all listed companies report their profits for *the six months to* the end of September.

Pre-tax profits have so far turned out better than expected, and well above last year's first half. As of the middle of last week, just over half of the biggest 300 companies had reported. Pre-tax profits were up 27 per cent on last year – albeit from a very low base.

More importantly, the figures suggest the extra profits reflect higher margins, not *higher sales*. This impressive performance in unfavourable price circumstances suggests that companies at last seem to be reaping the benefits of their oft-derided restructuring efforts.

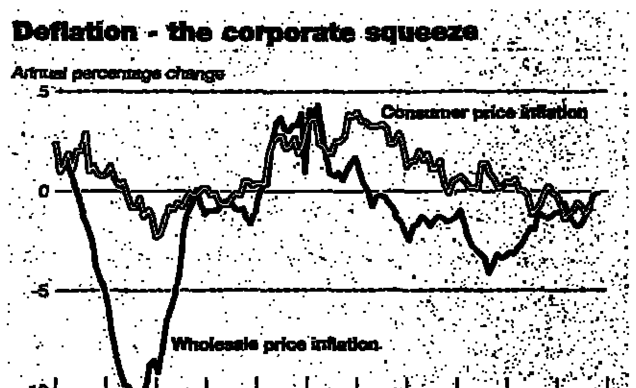
Contrary to popular belief, labour costs in Japan are remarkably flexible. Though big businesses do not generally lay off workers they are still able to keep a tight rein on *individual remuneration*. And by cutting recruitment and accelerating severance they have also been able to reduce overall wage costs.

Restructuring has of course involved other, more dramatic responses, most notably "hollowing out" – the shift of manufacturing capacity offshore – which is continuing apace.

A stiff bout of domestic deflation may even have proved a *blessing in disguise*. It was shortly after companies enjoyed those fat margins in *the mid-1980s* that they succumbed to the excesses that ultimately produced the current slump.

Their employees may be substituting Big Macs for sushi, but Japanese companies themselves are beginning to look much leaner.

Deflation - the corporate squeeze



Source: Yamaichi Securities

Total return in local currency to 16/11/95

% change over period	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.11	0.01	0.07	0.11	0.20	0.13
Month	0.49	0.04	0.34	0.53	0.86	0.56
Year	6.75	2.81	5.58	8.36	9.89	7.19
Bonds 3-5 year						
Week	0.24	0.02	0.21	0.80	0.50	0.59
Month	0.91	0.10	1.62	2.90	1.88	2.28
Year	14.31	13.61	14.04	12.94	[illegible]	13.38
Bonds 7-10 year						
Week	0.31	-0.42	0.41	1.07	0.94	0.99
Month	0.80	-0.38	2.25	4.23	2.74	3.45
Year	21.07	17.29	15.58	18.38	14.92	15.50
Equities						
Week	0.8	-0.1	0.2	2.5	-0.4	2.0
Month	2.6	-0.5	-0.3	5.2	-2.4	1.7
Year	32.1	-5.1	3.7	1.7	-7.5	18.7

Source: Cash & Bonds - Lehman Brothers. Equities-© NatWest Securities. The FT-Actuaries World Indices are owned by The Financial Times Limited, Goldman Sachs & Co. and Standard & Poor's.

COMMODITIES — Richard Mooney

UN seeks strategy on hunger

The development of a co-ordinated strategy to ease the plight of the world's 800m hungry people is the purpose of a two-day conference beginning in Brussels today.

The UN's International Fund for Agricultural Development, which is organising the event, is concerned that too little is being done to capitalise on the many successful community projects promoted by non-governmental organisations (NGOs).

"Hundreds of outstanding programmes throughout the world have delivered astonishing results in terms of drastic eradication of poverty at local levels," says Mr Fawzi Al-Sultan, IFAD president, "but little has been done to analyse them and replicate them on a large scale in a direct offensive for the complete eradication of poverty".

IFAD hopes that its conference will help to make donor governments more aware of the work of the NGOs and more willing to take them up on a wider scale and with increased funding.

"It is a first serious attempt," says Mr Al-Sultan, "to merge the two agendas into one strategy for fighting hunger and poverty."

● Other events this week are expected to include the signing in Moscow today of an agreement between Russia and Australia to form links between the former's ailing aluminium industry and the latter's alumina (aluminium oxide) suppliers.

Tomorrow sees the opening, in Jakarta, of a two-day conference on the wood pulp and waste paper markets; and Jakarta is also the venue for the four-day Mining Indonesia '95 conference and minerals recovery exhibition, which begins on Wednesday. The event is organised by PT Pamerindo Buana Abadi and hosted by the Indonesian Mining Association.

On Thursday, in Santiago, the Chilean capital, the International Copper Study Group begins its six-day general session, which coincides with the Copper '95 symposium, also in Santiago.

Economics Notebook / Robert Chote

Challenge for IDA donors

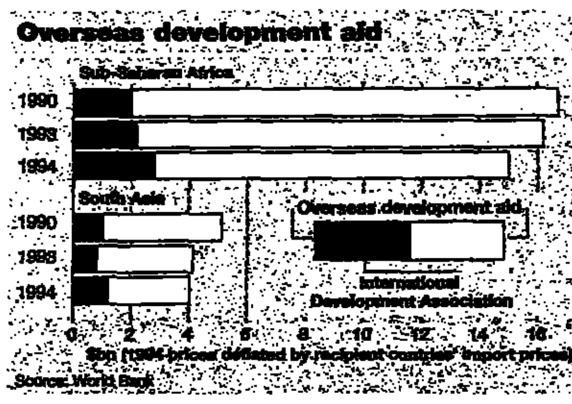
One of the more regrettable casualties of wrangling over the US budget in recent months has been the International Development Association (IDA), the World Bank arm which lends to poor countries at subsidised interest rates. Cuts in US funding for IDA this year – and, more importantly, uncertainty about funding over the next three years – have put the scheme in jeopardy.

IDA was founded in 1960, since when it has approved loans totalling almost $90bn for countries which cannot afford the market rates of interest charged by the World Bank proper. These loans mature over 35 to 40 years, with a 10-year grace period and a service charge of 0.75 per cent. Countries are eligible for IDA support if they had a gross national product of less than $865 a head in 1994, although the average income of IDA recipients is less than half that amount.

Take Vietnam for example. With a per capita income of less than $200 per head, it has been one of IDA's five poorest beneficiaries since lending was resumed in 1984. A quarter of the IDA support it receives is being used to ease the pain of economic reform and strengthen the institutions of economic management. Another quarter is being used to develop power, roads and urban infrastructure. The rest is being spent on environment programmes, rural poverty alleviation, education and training.

Funding difficulties which forced IDA to rein back its help for Vietnam could weaken the country's growth potential and – although not everyone would think this a bad thing – limit the influence of the international financial institutions on its economic policies.

Overseas development aid



Source: World Bank

The future of IDA has been placed under the spotlight by a big cut in the US contribution for the 1996 financial year. The administration put in a budget request for almost $1.4bn for IDA in 1996, but the House of Representatives proposed *allocating just $575m* and the Senate $775m. In spite of President Bill Clinton's *impassioned speech in IDA's* support at last month's World Bank annual meeting, a House-Senate conference committee compromised on just $700m. This was a better outcome than many observers predicted, but still barely 40 per cent of the original sum proposed by the White House.

More worrying still, any cut in US budget support has the potential to be magnified as much as fourfold. The association's rules mean that other donor countries are entitled to scale back their contributions in proportion to the US commitment. Pro-rata reduction of support is laid down by statute for Germany, while Canada has already also limited the use of money committed to IDA for next year in response to the US decision.

The cuts in support for next year are not insuperable, however. Resources could be found to tide IDA over the difficulties of the coming year, in part using transfers of funds from the World Bank and the repayment of old loans. The strain on IDA in the coming year has also been ameliorated by the failure of some big borrowers to put in place promised economic reform programmes, which means they have not received their expected credits.

But the World Bank does not want to step in and help bridge the gap for IDA this year without being confident about the scheme's future viability. Hence the importance of discussions of IDA's eleventh "replenishment", covering the period from July 1996 to June 1999. Government officials from most of the 35 or so donors to IDA met in Luxembourg on Friday and Saturday to discuss the prospects – and *they were unable to come up* with any clear answers.

The World Bank estimates that planned IDA projects will require funding of about $24bn in the three years of the eleventh replenishment. About $10bn is expected from the repayment of past loans and funds carried over from IDA-10. This leaves a net funding requirement of $14bn, which would require a US contribution of about $1bn a year. But President Clinton's representative at the Luxembourg meeting told his colleagues that it was impossible to say when the US would decide its contribution, let alone what size that contribution might be.

So the other IDA donors face a challenge. They have to decide whether to take what one senior official describes as a "leap of faith", by guaranteeing to provide money ahead of any firm commitment from the US. It appears that most countries would in principle be prepared to do this, although the devil will be in the details. One possibility would be the creation of a parallel funding mechanism for IDA projects, to which the US would not contribute and from which US companies could not benefit in terms of procurement contracts. There was a precedent for this sort of arrangement in the mid-1980s, although there is a danger that creating an impression that the US is being "punished" by the other donors could be counter-productive in the longer term.

The IDA deputies will reconvene in Paris next month, with the hope of reaching agreement on a way to take the scheme forward with the US unavoidably on the sidelines. The World Bank is conscious that delay increases the possibility of a serious shortfall, which could have damaging negative fall-out in the countries concerned. Mr James Wolfensohn, the World Bank president, is in Germany this week and will no doubt use the opportunity to twist some arms on IDA's behalf. Any positive response he can elicit could prove an invaluable catalyst in the run-up to December's meeting.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY NOVEMBER 17 1995 US Dollar Index	%chg since 30/12/94	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 30/12/94	Gross Div. Yield	THURSDAY NOVEMBER 16 1995 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (82)	182.46	6.3	174.31	117.84	133.27	163.59	11.2	4.01	180.80	172.22	116.82	132.49	162.61	191.01	157.95	184.99
Austria (27)	169.12	-7.5	161.55	109.31	123.52	123.45	-16.1	1.36	168.80	160.79	109.07	123.69	123.63	199.28	167.48	177.82
Belgium (35)	200.13	18.8	191.17	129.35	146.16	142.63	7.9	3.67	198.73	189.30	128.41	145.63	142.13	201.12	164.78	186.95
Brazil (28)	132.44	-18.8	126.51	85.60	96.73	234.40	-7.9	1.79	130.81	124.61	84.52	95.86	231.76	184.92	88.06	184.92
Canada (100)	145.24	12.2	138.74	93.86	106.08	142.31	8.3	2.59	144.31	137.46	93.25	105.75	141.52	150.83	121.81	130.31
Denmark (33)	281.96	12.0	269.34	182.24	205.93	206.85	0.2	1.55	280.37	267.07	181.16	205.45	208.34	295.98	236.81	250.88
Finland (25)	212.87	14.5	203.34	137.58	155.46	187.25	1.2	1.71	215.27	205.06	139.10	157.75	190.09	276.11	171.13	193.50
France (100)	182.90	11.8	174.71	118.21	133.58	139.19	1.7	3.15	183.65	174.94	118.66	134.57	139.97	191.17	157.79	168.37
Germany (59)	161.01	12.3	153.80	104.07	117.59	117.59	1.8	2.04	160.46	152.85	103.68	117.58	117.58	167.74	135.39	143.29
Hong Kong (55)	354.67	8.8	338.79	229.24	259.05	352.14	6.7	4.16	356.50	339.59	230.35	261.24	354.01	389.39	277.40	384.34
Ireland (16)	257.01	24.6	245.50	166.12	187.71	226.12	20.2	3.37	255.97	243.83	165.39	187.57	225.09	257.01	195.34	204.89
Italy (58)	70.43	-6.5	67.28	45.52	51.44	83.71	-8.2	1.80	70.34	67.00	45.45	51.54	83.53	82.71	65.46	76.79
Japan (483)	142.36	-9.3	135.99	92.01	103.98	92.01	-7.0	0.83	140.89	134.21	91.03	103.24	91.03	164.82	136.95	158.27
Malaysia (106)	427.35	-10.8	408.23	276.22	312.12	418.52	-11.7	1.88	430.23	409.82	277.99	315.27	419.66	561.96	398.16	521.96
Mexico (18)	869.82	-38.6	830.87	562.19	635.26	7346.56	-3.7	1.89	836.78	797.09	540.68	613.18	7090.45	2125.20	647.81	2009.77
Netherland (19)	260.06	19.8	248.44	168.10	189.95	186.73	8.7	3.50	258.27	246.02	166.88	189.26	186.13	263.98	207.60	214.31
New Zealand (14)	78.52	11.4	75.00	50.75	57.34	64.33	10.1	4.50	78.43	74.71	50.68	57.48	64.32	85.49	69.56	74.61
Norway (33)	225.58	5.8	215.48	145.80	164.75	189.60	-3.1	2.21	224.82	214.16	145.27	164.75	189.79	243.79	192.92	198.65
Singapore (44)	365.65	-2.0	349.29	236.34	267.06	237.84	-5.1	1.70	365.37	348.05	236.09	267.75	237.91	414.26	313.94	398.70
South Africa (45)	374.69	11.3	357.91	242.17	273.65	298.70	-0.4	3.94	373.42	355.71	241.28	273.64	297.57	376.45	281.06	336.14
Spain (38)	152.70	15.7	145.86	98.70	111.52	139.88	6.3	4.07	153.05	145.79	98.89	112.15	140.48	160.51	124.10	141.39
Sweden (47)	311.68	34.9	297.73	201.45	227.64	302.93	19.1	1.98	308.74	294.10	199.50	226.25	302.54	320.43	225.80	240.70
Switzerland (41)	226.84	37.2	216.49	146.48	165.52	159.80	19.2	1.66	225.41	214.72	145.65	165.18	159.48	226.64	158.38	164.19
Thailand (46)	148.64	-6.0	141.98	96.07	108.56	145.03	-5.9	2.81	146.74	139.78	94.82	107.53	143.21	184.35	130.15	174.88
United Kingdom (206)	225.84	15.9	215.73	145.97	164.94	215.73	16.8	4.03	226.52	215.77	146.37	165.99	215.77	227.31	187.07	200.15
USA (504)	245.97	31.0	234.95	158.98	179.64	245.97	31.0	2.40	244.68	233.07	158.10	179.30	244.68	245.97	182.33	189.58
Americas (650)	223.85	28.5	213.83	144.68	163.49	188.10	29.0	2.40	222.61	212.05	143.84	163.12	187.07	223.85	170.66	177.20
Europe (737)	196.75	16.4	187.94	127.17	143.70	165.13	9.6	3.07	196.65	187.32	127.07	144.10	165.19	199.02	168.04	171.88
Nordic (138)	278.74	24.2	266.26	180.16	203.58	232.60	10.5	1.89	277.34	264.18	179.20	203.23	232.89	293.02	215.79	229.75
Pacific Basin (832)	151.89	-7.5	145.10	98.18	110.94	101.64	-5.8	1.29	150.59	143.45	97.31	110.35	100.77	171.87	145.93	165.71
Euro-Pacific (1569)	170.50	2.8	162.88	110.20	124.52	125.60	0.6	2.15	169.70	161.64	109.65	124.35	125.08	178.33	164.73	168.20
North America (604)	239.74	30.2	229.00	154.95	175.09	239.03	30.0	2.41	238.48	227.16	154.09	174.75	237.78	239.74	178.88	185.89
Europe Ex. UK (531)	176.73	16.8	168.82	114.23	129.07	137.89	5.7	2.53	176.28	167.92	113.90	129.18	137.95	179.48	146.45	153.08
Pacific Ex. Japan (349)	243.67	2.3	232.76	157.50	177.97	214.78	3.0	3.44	243.59	232.04	157.40	178.50	214.98	266.72	211.19	256.98
World Ex. US (1760)	171.50	2.5	163.82	110.84	125.25	129.23	0.6	2.19	170.65	162.56	110.27	125.05	128.85	178.73	155.42	170.05
World Ex. UK (2058)	191.33	11.9	182.77	123.67	139.74	157.63	10.3	2.09	190.20	181.18	122.90	139.37	156.79	191.33	163.46	173.11
World Ex. Japan (1781)	223.26	21.6	213.26	144.30	163.05	207.99	19.0	2.74	222.51	211.96	143.77	163.05	207.39	223.26	178.95	187.4[illegible]
The World Index (2264)	194.35	12.3	185.65	125.62	141.94	162.70	10.9	2.28	193.37	184.20	124.95	141.70	161.92	194.35	165.92	175.49

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 190.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local).

هكذا من الأصل

The Emerging Investor / Joel Kibazo

A new scramble for Africa

Institutions are determined not to be left out in a new "scramble for Africa". The investments appear to be the next stage in a love affair with the continent that started two years ago. International investors were looking for ways to diversify their portfolios as they started facing up to the prospect of lower returns in more mature markets.

The launch today by Baring Asset Management of a new fund to invest in Africa is a sign that this year's modest gains on many sub-Sahara bourses have done little to deter the interest of the international investment community.

The 'Simba' portfolio, a closed-ended fund capped at $100m for five years is to be listed on the London Stock Exchange. Most of its investments will be in South Africa but BAM said there would be investments in nine other sub-Sahara countries, as well as Morocco, Egypt and Tunisia.

BAM already has about $120m of its managed funds in other investments in Africa.

The new fund is part of a growing list of portfolios dedicated to investment in Africa. Last week, GT Management, the UK fund management group, launched its own $75m open ended Africa fund.

GT is already one of the biggest investors with about $500m under management in African equities and bonds. It believes that, in addition to potential investments in infrastructure and financial sectors, areas such as horticulture, tourism and mineral resource are ripe for investment.

Mercury Asset Management is joining forces with Sanlam, the South African life assurance centred conglomerate, to launch a fund investing in southern Africa. It will initially concentrate on South Africa but plans to make small investments in Zimbabwe and Ghana.

As well as finance and infrastructure, areas such as horticulture, tourism and mineral resource are ripe for investment

The new interest in the continent, seemed to be justified when last year markets such as the Nairobi stock exchange (NSE) registered a gain of 173 per cent in dollar terms, while Zimbabwe's market rose by 33 per cent, and Ghanaian stocks surged by 66 per cent. The gains were comparable to those achieved in Latin America before the Mexican devaluation.

This year, the Johannesburg stock exchange, which as the tenth largest in the world dwarfs all others on the continent, grew by 12 per cent, as global interest in the 'new' South Africa continued.

The sharpest increase in the rest of the region has come from the Abijan stock market, capitalised at $800m. It rose by 85 per cent in dollar terms, with analysts suggesting it was left behind in last year's surge due to poor local research, and limited domestic institutional investment.

However, gains from other markets have been far from spectacular. According to statistics† compiled by Mr Christopher Hartland-Peel, an African markets research specialist formerly with the International Finance Corporation, in the 10 months to October 1995, the NSE fell by 37.6 per cent. The market had risen sharply ahead of its being opened to international investors in January.

His figures also show that the Harare stock market rose by 14.7 per cent, but the Accra market was flat.

Analysts have blamed several factors for this year's slowing including continuing liquidity problems and general profit-taking. There has also been what has come to be called "the Mexico effect", caution on some emerging markets following last December's falls on Mexico's exchange.

Yet both analysts and investors have not been put off by this year's more modest trend and believe this is the right time to invest in Africa.

Mr Hartland-Peel says: "This is a more realistic level at which to invest in Africa. The froth has gone and one can now asses the fundamentals more clearly."

"A lot of the gains last year were from low volumes which made it difficult for institutional investors to go into those markets," says Mr John Niepold, US portfolio manager at Emerging Markets Management in Washington.

The recent African Stock Exchange Association meeting in Mauritius committed itself to a three point plan

In spite of such confidence, there remain problems of liquidity, poor dealing systems, and continuing exchange controls in some countries including South Africa.

However, the recent African Stock Exchange Association meeting in Mauritius committed itself to a three point plan. It was put forward in what appears a determined effort to address the concerns of the international investors and attract a greater slice of funds flowing to other emerging markets.

It is planned to market investment opportunities on the African exchanges collectively to international investors and launch a cadet scheme to train analysts and brokers, in which South Africa will take the lead.

African bourses are also to monitor their performance on issues such as settlement and clearing, comparing their performance with that of other emerging markets.

Mrs Cynthia Valianti Corbett, London-based head of structural finance at Standard Bank of South Africa, attended the meeting and says: "People operating in these markets are beginning to be realistic. Talk of grand schemes is gone and many have realised they have to walk before they can run.

"There is now more talk of how to introduce settlement procedures, deregulation, computerisation and the like."

However even those which have started investing in Africa believe a lot more change is needed. Mr John Legat of GT Management believes African markets will grow faster if countries in the region establish mutual funds and also start an institutional pension fund market.

†African Equities, by Christopher Hartland-Peel, will be published by Euromoney Books in December 1995.

News round-up

■ Pakistan

The Karachi stock exchange hopes to begin screen trading in a number of shares from December 5. The exchange said the computerised trading system would initially be used only for shares in the cement sector and Faysal Bank between 10.30 and 12.30 after normal trading hours.

■ Czech Republic

The Prague stock exchange elects a new chair and vice-chair on November 27. The chair of the parliament's budget committee, Mr Tomas Jezek, has been tipped to get the top job.

■ Slovenia

The slow pace of Slovenia's privatisation programme and its outdated securities legislation hurts the country's stock exchange, said Ljubljana bourse chief executive Mr Drasko Veselinovic, *Reuter reports*.

"We expected the first shares of the newly privatised companies to be listed in the middle of 1995, but we still have not seen any of them on the market," he said. At present, only 16 companies are listed on the stock exchange, another 12 trade on the OTC market.

Slovenia's privatisation programme, covering some 1,400 companies, started in 1994, and is not expected to be completed before the end of next year. Some 300 companies have been privatised so far.

● Direct foreign investment in Slovenia reached $102.1m in the first eight months of 1995, double the amount invested in the same period of 1994, the Institute of Macroeconomic Analysis said. Total investment in the first nine months of 1995 rose to 13.4bn tolars, an increase of 27.5 per cent over the same 1994 period.

■ Malta

A drinks manufacturer said it would become the first private sector company to list its shares in Malta. Farsons will issue LM3m ($8.6m) of preference shares next month. Currently four companies, three banks and an insurance company, are listed on the Malta stock exchange, the smallest in Europe which was capitalised in 1994 at $52m.

■ Mauritius

The stock exchange ended a five-week fall on Friday when turnover leapt ahead of the announcement that a general election was to be held.

■ Estonia

The government says that it is close to selling a 66 per cent stake in the national airline. The privatisation agency announced at the end of last week that the sale of Estonian Air will take place through negotiations rather than by auction or flotation.

■ China

China will give priority in overseas listings to companies involved in infrastructure development, *agencies report*. An official of the China Securities Regulatory Commission said overseas listing should serve the long-term target of building a socialist market economy and be in line with macro-economic policies.

■ Romania

Only seven of the planned 12 companies to list on the Bucharest stock exchange will be traded when business commences today. The companies are capitalised at between $4.5m and $74m, the exchange's general manager has said. The exchange said on Friday that five of the companies had failed to produce shareholders registers.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page.*

CURRENCY MARKETS — Philip Gawith

Danger signs for sterling

Sterling is likely to be centre stage this week with market nerves set to become increasingly frayed in the run-up to the Budget on November 28.

The Bank of England could face a testing week if traders are tempted to push the pound aggressively lower following its fall last Friday to an all-time low against the D-Mark of DM2.1715. It also reached a historic trade-weighted low of 82.3.

Sterling is suffering from market anxieties that Mr Kenneth Clarke, the chancellor of the exchequer, may be tempted not only to deliver aggressive tax cuts in the Budget, but also to cut interest rates.

The sentiment is aggravated by continuing rumours of defections from the ruling Conservative party to the opposition Labour party, which would further compromise the government's parliamentary majority.

So far the market has been strangely relaxed about sterling's plight, with the currency almost tip-toeing to fresh lows, rather than been driven there with the normal frenzy and fanfare that accompanies such events.

While there has been little evidence of long-term investors running scared, there are indications that sterling has come into the sights of some of the more aggressive speculators.

While the next week will be unavoidably volatile, the longer term picture is likely to depend on the credibility of the budget, and the resolution of the US budgetary imbroglio.

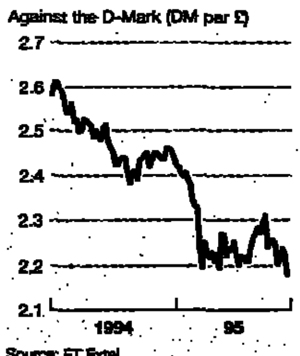
Current market wisdom is that a budget deal before Christmas will be good for the dollar.

Recent history suggests this should help sterling, although traders said selling pressure last week came as much through sterling/dollar as dollar/D-Mark.

The absence of important data releases this week in the United States, coupled with the Thanksgiving holiday on Thursday could, sterling aside, make for a quiet week's trading.

Sterling

Against the D-Mark (DM per £)



Source: FT Extel

Baring Securities emerging markets indices

Index	17/11/95	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (360)	134.80	-2.07	-1.51	-11.91	-8.12	-23.24	-14.70
Latin America							
Argentina (23)	76.18	+1.36	+1.82	-1.79	-2.29	-9.93	-11.53
Brazil (22)	172.72	-4.68	-2.64	-24.19	-12.28	-36.65	-17.50
Chile (15)	181.04	+2.23	+1.24	-10.27	-5.37	-30.52	-14.43
Mexico (24)	58.93	-1.35	-2.21	-9.93	-14.21	-37.70	-38.63
Peru (15)	867.22	+58.44	+7.23	-160.32	-15.60	+18.55	+2.39
Latin America (99)	107.73	-0.93	-0.86	-12.90	-10.69	-31.04	-22.37
Europe							
Greece (20)	96.38	-1.94	-1.97	-7.60	-7.31	+9.39	+10.79
Portugal (23)	115.40	-1.47	-1.26	-3.35	-2.82	-0.88	-0.76
Turkey (21)	95.09	-1.29	-1.34	-14.77	-13.44	+18.98	+24.94
South Africa (33)	147.79	-0.20	-0.14	+4.74	+3.31	+19.85	+15.51
Europe (97)	118.84	-0.57	-0.48	+0.59	+0.50	+21.15	+21.64
Asia							
Indonesia (32)	127.71	-9.31	-6.79	-18.99	-12.95	-5.97	-4.47
Korea (23)	145.33	-3.35	-2.25	-9.92	-6.39	+5.45	+3.89
Malaysia (22)	204.62	-3.00	-1.45	-12.97	-5.96	-6.23	-2.96
Pakistan (16)	69.14	-3.77	-4.64	-8.47	-10.91	-37.06	-34.90
Philippines (15)	223.12	-13.92	-5.87	-44.02	-16.48	-59.01	-20.92
Thailand (26)	234.23	+0.77	+0.33	-23.47	-9.11	-17.41	-6.92
Taiwan (31)	116.11	-5.10	-4.20	-15.77	-11.96	-68.04	-36.95
Asia (163)	187.51	-5.00	-2.60	-19.22	-9.30	-23.11	-10.97

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, November 17, 1995. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	6894.43	4442.00	3162.02*	4344.25
Albania	(Lek)	142.793	92.0000	65.4898	89.9756
Algeria	(Dinar)	79.1572	51.0000	36.3041	49.8776
Andorra	(French Fr)	7.5300	4.8515	3.4535	4.7447
	(Sp Peseta)	187.672	120.915	86.0728	118.254
Angola	(Kwanza)	8834.58	5692.00	4051.82	5566.76
Antigua	(E Carr $)	4.1907	2.7000	1.9220	2.6405
Argentina	(Peso)	1.5514	0.9995	0.7116	0.9776
Armenia	(Dram)	622.087o	400.790	285.300	391.971
Aruba	(Florin)	2.7783	1.7900	1.2742	1.7506
Australia	(Aus $)	2.0922	1.3479	0.9595	1.3182
Austria	(Schilling)	15.3431	9.8854	7.0369	9.6679
Azerbaijan	(Manat)	6883.57o	4435.00	3157.03	4337.41
Azores	(Port Escudo)	228.873	147.460	104.969	144.215
Bahamas	(Bahama $)	1.5521	1	0.7118	0.9780
Bahrain	(Dinar)	0.5852	0.3770	0.2684	0.3687
Balearic Is	(Sp Peseta)	187.672	120.915	86.0728	118.254
Bangladesh	(Taka)	62.3944	40.2000	28.6152	39.3154
Barbados	(Barb $)	3.1218	2.0113	1.4317	1.9671
Belarus	(Rouble)	17849.2o	11500.0	8186.22	11246.9
Belgium	(Belg Fr)	44.8557	28.9000	20.5723	28.2641
Belize	(B $)	3.1042	2.0000	1.4237	1.9560
Benin	(CFA Fr)	753.000	485.150	345.352	474.474
Bermuda	(Bermudian $)	1.5521	1	0.7118	0.9780
Bhutan	(Ngultrum)	53.8424	34.6900	24.6939	33.9267
Bolivia	(Boliviano)	7.5743	4.8800	3.4738	4.7726
Botswana	(Pula)	4.3623	2.8106	2.0007	2.7487
Brazil	(Real)	1.4923	0.9615	0.6844	0.9403
Brunei	(Brunei $)	2.1908	1.4115	1.0048	1.3804
Bulgaria	(Lev)	107.483	69.2500	49.2953	67.7262
Burkina Faso	(CFA Fr)	753.000	485.150	345.352	474.474
Burma	(Kyat)	8.7798	5.6568	4.0266	5.5323
Burundi	(Burundi Fr)	408.979	263.500	187.571	257.702
Cambodia	(Riel)	3569.83	2300.00	1637.24	2249.39
Cameroon	(CFA Fr)	753.000	485.150	345.352	474.474
Canada	(Canadian $)	2.1001	1.3531	0.9632	1.3233
Canary Is	(Sp Peseta)	187.672	120.915	86.0728	118.254
Cp. Verde	(CV Escudo)	128.778	82.9700	59.0618	81.1443
Cayman Is	(CI $)	1.3210	0.8511	0.6058	0.8324
Cent. Afr. Rep	(CFA Fr)	753.000	485.150	345.352	474.474
Chad	(CFA Fr)	753.000	485.150	345.352	474.474
Chile	(Chilean Peso)	634.188	408.600	290.860	399.609
China	(Yuan)	12.9030	8.3132	5.9177	8.1303
Colombia	(Col Peso)	1556.52	1002.85	713.874	980.782
Comoros	(Fr)	564.484	363.690	258.891	355.687
Congo	(CFA Fr)	753.000	485.150	345.352	474.474
Costa Rica	(Colon)	292.587	188.510	134.190	184.362
Côte d'Ivoire	(CFA Fr)	753.000	485.150	345.352	474.474
Croatia	(Kuna)	8.2033	5.2853	3.7623	5.1690
Cuba	(Cuban Peso)	1.5521	1	0.7119	0.9780
Cyprus	(Cyprus £)	0.6961	0.4485	0.3193	0.4386
Czech Rep.	(Koruna)	40.5654	26.1345	18.6037	25.5594
Denmark	(Danish Krone)	8.4528	5.4460	3.8767	5.3262
Djibouti Rep	(Djib Fr)	256.097	165.000	117.454	161.369
Dominica	(E Carib $)	4.1907	2.7000	1.9220	2.6406
Dominican Rep	(D Peso)	21.3104	13.7300	9.7736	13.4278
Ecuador	(Sucre)	4404.09o	2837.50	2019.86	2775.08
	(Sucre)	4107.64u	2646.50	1883.90	2588.26
Egypt	(Egyptian £)	5.2772	3.4000	2.4203	3.3252
El Salvador	(Colon)	13.5964	8.7600	6.2358	8.5672
Equat'l Guinea	(CFA Fr)	753.000	485.150	345.352	474.474
Estonia	(Kroon)	17.4798	11.2620	8.0169	11.0142
Ethiopia	(Ethiopian Birr)	9.0022	5.8000	4.1287	5.6724
Falkland Is	(Falk £)	1	0.6443	0.4586	0.6301
Faroe Is	(Danish Krone)	8.4528	5.4460	3.8767	5.3262
Fiji Is	(Fiji $)	2.2157	1.4276	1.0162	1.3962
Finland	(Markka)	6.5057	4.1916	2.9838	4.0994
France	(Fr)	7.5300	4.8515	3.4535	4.7447
Fr. Cty/Africa	(CFA Fr)	753.000	485.150	345.352	474.474
Fr. Guiana	(Local Fr)	7.5300	4.8515	3.4535	4.7447
Fr. Pacific Is	(CFP Fr)	136.844	88.1672	62.7614	86.2271
Gabon	(CFA Fr)	753.000	485.150	345.352	474.474
Gambia	(Dalasi)	15.2494	9.8250	6.9939	9.6098
Germany	(D-Mark)	2.1803	1.4048	1	1.3739
Ghana	(Cedi)	2157.42	1390.00	989.465	1359.41
Gibraltar	(Gib £)	1	0.6443	0.4586	0.6301
Greece	(Drachma)	361.251	232.750	165.682	227.628
Greenland	(Danish Krone)	8.4528	5.4460	3.8767	5.3262
Grenada	(E Carr $)	4.1907	2.7000	1.9220	2.6406
Guadeloupe	(Local Fr)	7.5300	4.8515	3.4535	4.7447
Guam	(US $)	1.5521	1	0.7118	0.9780
Guatemala	(Quetzal)	9.2147	5.9369	4.2262	5.8063
Guinea	(Fr)	1529.13	985.200	701.310	963.521
Guinea-Bissau	(Peso)	27993.7	18036.0	12838.8	17639.1
Guyana	(Guyanese $)	221.796	142.900	101.723	139.756
Haiti	(Goude)	29.4899	19.0000	13.5251	18.5819
Honduras	(Lempira)	15.1175	9.7400	6.9334	9.5257
Hong Kong	(HK $)	12.0092	7.7336	5.5051	7.5633
Hungary	(Forint)	205.537	132.425	94.2661	129.511
Iceland	(Icelandic Krona)	100.017	64.4400	45.8713	63.0220
India	(Indian Rupee)	53.8424	34.6900	24.6939	33.9267
Indonesia	(Rupiah)	3546.55	2285.00	1626.57	2234.72
Iran	(Rial)	4656.30u	3000.00	2135.54	2933.99
Iraq	(Iraqi Dinar)	0.4826o	0.3109	0.2213	0.3041
	(Iraqi Dinar)	4033.46m	2600.00	1850.80	2542.79
Irish Rep	(Punt)	0.9692	0.6244	0.4445	0.6107
Israel	(Shekel)	4.7520	3.0617	2.1795	2.9943
Italy	(Lira)	2469.80	1591.33	1132.78	1556.31
Jamaica	(Jamaican $)	55.8758	36.0000	25.6264	35.2078
Japan	(Yen)	158.702	102.250	72.7862	100
Jordan	(Jordanian Dinar)	1.1004	0.7090	0.5047	0.6934
Kazakhstan	(Tenge)	99.0241	63.8000	45.4157	62.3961
Kenya	(Kenya Shilling)	88.1882	55.5300	39.5268	54.3081
Kiribati	(Australian $)	2.0922	1.3479	0.9595	1.3182
Korea North	(Won)	3.3370	2.1500	1.5305	2.1027
Korea South	(Won)	1195.19	770.050	548.158	753.105
Kuwait	(Kuwaiti Dinar)	0.4656	0.3000	0.2136	0.2934
Laos	(New Kip)	1427.93	920.000	654.898	899.756
Latvia	(Lats)	0.8346	0.5377	0.3828	0.5259
Lebanon	(Lebanese £)	2484.91	1601.00	1139.66	1565.77
Lesotho	(Maluti)	5.6609	3.6473	2.5963	3.5670
Liberia	(Liberian $)	1.5521	1	0.7118	0.9780
Libya	(Libyan Dinar)	0.5518	0.3555	0.2531	0.3477
Liechtenstein	(Swiss Fr)	1.7652	1.1373	0.8096	1.1123
Lithuania	(Litas)	6.2084	4.0000	2.8474	3.9120
Luxembourg	(Lux Fr)	44.8557	28.9000	20.5723	28.2641
Macao	(Pataca)	12.3970	7.9872	5.6857	7.8115
Macedonia	(Denar)	60.9962	39.3004	27.9758	38.4356
Madagascar	(MG Fr)	6596.43	4250.00	3025.34	4156.48
Madeira	(Port Escudo)	228.873	147.460	104.969	144.215
Malawi	(Kwacha)	23.8403	15.3600	10.9339	15.0220
Malaysia	(Ringgit)	3.9379	2.5307	1.8015	2.4750
Maldive Is	(Rufiya)	18.2682	11.7700	8.3784	11.5110
Mali Rep	(CFA Fr)	753.000	485.150	345.352	474.474
Malta	(Maltese Lira)	0.5415	0.3489	0.2483	0.3412
Martinique	(Local Fr)	7.5300	4.8515	3.4535	4.7447
Mauritania	(Ouguiya)	208.059	134.050	95.4228	131.100
Mauritius	(Maur Rupee)	27.8767	17.9600	12.7847	17.5648
Mexico	(Mexican Peso)	11.9900	7.7250	5.4990	7.5550
Miquelon	(Local Fr)	7.5300	4.8515	3.4535	4.7447
Moldova	(Leu)	7.1088	4.5800	3.2603	4.4792
Monaco	(French Fr)	7.5300	4.8515	3.4535	4.7447
Mongolia	(Tugrik)	714.248	460.180	327.577	450.054
Montserrat	(E Carr $)	4.1907	2.7000	1.9220	2.6406
Morocco	(Dirham)	12.9496	8.3433	5.9391	8.1597
Mozambique	(Metical)	15490.7	9974.00	7099.84	9754.52
Namibia	(S A Rand)	5.6609	3.6473	2.5963	3.5670
Nauru Is	(Australian $)	2.0922	1.3479	0.9595	1.3182
Nepal	(Nepalese Rupee)	80.3212	51.7500	36.8380	50.6113
Netherlands	(Guilder)	2.4418	1.5731	1.1198	1.5385
N'nd Antilles	(A/Guilder)	2.7783	1.7900	1.2742	1.7506
New Zealand	(NZ $)	2.3951	1.5430	1.0984	1.5090
Nicaragua	(Gold Cordoba)	12.1646	7.8375	5.5791	7.6650
Niger Rep	(CFA Fr)	753.000	485.150	345.352	474.474
Nigeria	(Naira)	34.1492o	22.0000	15.6605	21.5159
	(Naira)	136.973m	88.2500	62.8203	86.3081
Norway	(Nor. Krone)	9.6114	6.1925	4.4081	6.0562
Oman	(Rial Omani)	0.5977	0.3851	0.2741	0.3766
Pakistan	(Pak. Rupee)	53.1084(1)	34.2158	24.3563	33.4629
Panama	(Balboa)	1.5521	1	0.7118	0.9780
Papua New Guinea	(Kina)	2.0423	1.3158	0.9366	1.2868
Paraguay	(Guarani)	3046.00	1962.50	1397.00	1919.32
Peru	(New Sol)	3.6001	2.3195	1.6511	2.2685
Philippines	(Peso)	40.7194	26.2350	18.6753	25.6577
Pitcairn Is	(£ Sterling)	1	0.6443	0.4586	0.6301
	(NZ $)	2.3951	1.5430	1.0984	1.5090
Poland	(Zloty)	3.8252	2.4645	1.7543	2.4103
Portugal	(Escudo)	228.873	147.460	104.969	144.215
Puerto Rico	(US $)	1.5521	1	0.7118	0.9780
Qatar	(Riyal)	5.6515	3.6412	2.5920	3.5611
Reunion Is. de la	(F Fr)	7.5300	4.8515	3.4535	4.7447
Romania	(Leu)	3996.68	2575.00	1833.00	2518.34
Russia ‡	(Rouble)	0.9918o	0.6390	0.4549	0.6249
	(Rouble)	7089.22m	4567.50	3251.36	4466.99
Rwanda	(Fr)	488.050	314.445	223.836	307.526
St Christopher	(E Carr $)	4.1907	2.7000	1.9220	2.6406
St Helena	(£)	1	0.6443	0.4586	0.6301
St Lucia	(E Carr $)	4.1907	2.7000	1.9220	2.6406
St Pierre	(French Fr)	7.5300	4.8515	3.4535	4.7447
St Vincent	(E Carr $)	4.1907	2.7000	1.9220	2.6406
San Marino	(Italian Lira)	2469.80	1591.33	1132.78	1556.31
Sao Tome	(Dobra)	2737.27	1763.59	1255.40	1724.78
Saudi Arabia	(Riyal)	5.8212	3.7505	2.6698	3.6680
Senegal	(CFA Fr)	753.000	485.150	345.352	474.474
Seychelles	(Rupee)	7.4850	4.8225	3.4329	4.7164
Sierra Leone	(Leone)	1365.85	880.000	626.424	860.635
Singapore	($)	2.1908	1.4115	1.0048	1.3804
Slovakia	(Koruna)	45.4533	29.2850	20.8464	28.6405
Slovenia	(Tolar)	190.002	122.418	87.1414	119.723
Solomon Is	($)	5.3247	3.4306	2.4421	3.3551
Somali Rep	(Shilling)	4066.50	2620.00	1865.03	2562.35
South Africa	(Rand)	5.6609	3.6473	2.5963	3.5670
Spain	(Peseta)	187.672	120.915	86.0728	118.254
Spanish Ports in N Africa	(Sp Peseta)	187.672	120.915	86.0728	118.254
Sri Lanka	(Rupee)	81.9509	52.8000	37.5854	51.6381
Sudan Rep	(Dinar)	116.408	75.0000	53.3884	73.3486
Surinam	(Guilder)	679.820	438.000	311.788	428.362
Swaziland	(Lilangeni)	5.6609	3.6473	2.5963	3.5670
Sweden	(Krona)	10.1907	6.5654	4.6736	6.4209
Switzerland	(Fr)	1.7652	1.1373	0.8096	1.1123
Syria	(£)	65.0330	41.9000	29.8263	40.9780
Taiwan	($)	42.3188	27.2655	19.4088	26.6655
Tanzania	(Shilling)	889.364	573.000	407.887	560.391
Thailand	(Baht)	39.0198	25.1400	17.8958	24.5868
Togo Rep	(CFA Fr)	753.000	485.150	345.352	474.474
Tonga Is	(Pa'anga)	2.0922	1.3479	0.9595	1.3182
Trinidad/Tobago	($)	8.8586	5.7075	4.0629	5.5819
Tunisia	(Dinar)	1.4465	0.9320	0.6634	0.9115
Turkey	(Lira)	82087.3	52875.0	37639.8	51711.5
Turks & Caicos	(US $)	1.5521	1	0.7118	0.9780
Tuvalu	(Australian $)	2.0922	1.3479	0.9595	1.3182
Uganda	(New Shilling)	1583.14	1020.00	726.082	997.555
Ukraine	(Karbovanets)	276274.0	178000.0	126708.4	174083.1
U A E	(Dirham)	5.7009	3.6730	2.6146	3.5922
United Kingdom	(£)	1	0.6443	0.4586	0.6301
United States	(US $)	1.5521	1	0.7118	0.9780
Uruguay	(Peso Uruguayo)	10.7250	6.9100	4.9189	6.7580
Vanuatu	(Vatu)	174.458	112.400	80.0114	109.927
Vatican	(Lira)	2469.80	1591.33	1132.78	1556.31
Venezuela	(Bolivar)	263.523	169.785	120.861	166.049
Vietnam	(Dong)	17086.3	11008.5	7836.35	10766.3
Virgin Is-British	(US $)	1.5521	1	0.7118	0.9780
Virgin Is-US	(US $)	1.5521	1	0.7118	0.9780
Western Samoa	(Tala)	3.8773	2.4981	1.7783	2.4431
Yemen (Rep of)	(Rial)	77.6051o	50.0000	35.5923	48.8998
Yemen (Rep of)	(Rial)	217.294r	140.000	99.6583	136.919
Yugoslavia	(New Dinar)	2.1897	1.4104	1.0040	1.3794
Zaire Rep	(Zaire)	8338.60	5372.85	3824.46	5254.49
Zambia	(Kwacha)	1471.39	948.000	674.829	927.139
Zimbabwe	($)	14.3954	9.2748	6.6022	9.0707

Special Drawing Rights November 16, 1995 Utd Kingdom £0.981405 Utd States $1.49812 Germany DM2.10778 Japan Y152.386 European Currency Unit Rates November 17, 1995 Utd Kingdom £0.858578 Utd States $1.33437 Germany DM1.87039 Japan Y135.899

Abbreviations: (u) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate ; ‡ Russia applies to states in the Rouble Zone. (1) Pakistan Rupee devalued by 7% on 28/10/95. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365.

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Friday, November 17, 1995

ATHENS STOCK EXCHANGE 10 Nov - 17 Nov '95 — GREECE

ASE INDEX	894.41	P/E 95e (after tax)	13.5	GDP (USD bn) 95e	108.91
%Chg (Prev. Wk)	-1.32	P/E 94 (after tax)	16.0	Per Capita Income (USD)	9,810
Yearly High	996.75	EPS GROWTH (%) 95e	28.3	Inflation Rate (% Y.O.Y. October 95)	8.30
Yearly Low	782.22	P/CE 95e/94	11 1/14.1	12 month T-bill (%, end of October issue)	14.00
WEEKLY VOLUME (USD m)	169.72	P/BV 95e/94	3.3/3.3	1-month Athibor (%)	15.31
%Chg (Prev. Wk)	-3.40	Div. Yield (%) 95e/94	5.1 / 4.8	GRD-US$	232.70
1 Y Wk Avg. (USD m)	98.26			A.S.E. Market Capitalisation - 17/11/95 (USD bn)	16.98
				IPOs & Rights Issues (USD m Jan'95-17 Nov '95)	288.78

WORLD BOND MARKETS: This Week

NEW YORK — Richard Waters

With two large Treasury auctions early in the week, the Thanksgiving holiday towards the end of it and no new economic data, the US markets seem unlikely to make much headway in the coming days.

The one force that could propel long-dated bonds further ahead is a break in the impasse in Washington's budget debate, but few traders were holding their breath for that at the end of last week.

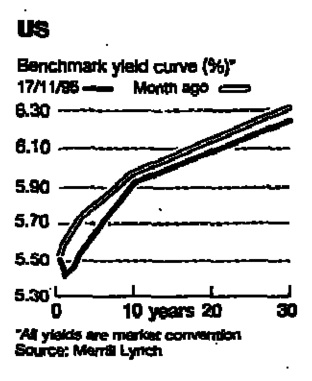
It was a set of weak economic numbers and enthusiastic buying by foreigners – rather than any signs that Congress and the president would agree on a way to balance the budget – that helped drive the yield on the 30-year bond down to 6.23 per cent by late Friday.

Both today's auction of $18bn of three-year notes and tomorrow's $13.5bn sale of 10-year paper will weigh heavily over the market during the quiet holiday week.

Meanwhile, the partial government shut-down is likely again to interrupt the flow of economic information on which the market depends.

The September trade report and revised GDP data, both due on Tuesday, and weekly jobless claims, due on Wednesday, are all likely to be casualties of the budget battle.

In a gathering economic fog, it will be difficult for market optimists to look forward with confidence to any change in the Fed's monetary stance at its meeting on December 17.



LONDON — Graham Bowley

UK government bonds rallied strongly last week – the yield on the benchmark 10-year gilt fell to a new low for the year of 7.68 per cent.

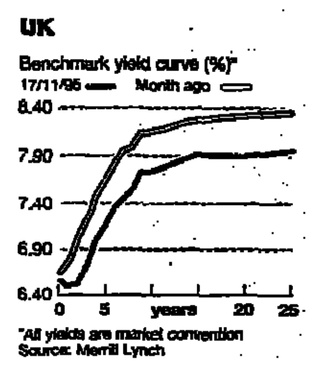
This was due partly to a buoyant international bond market. But gilts were also supported by economic figures which seemed to provide scope for chancellor Kenneth Clarke to cut interest rates soon. A fall in retail sales, a rise in unemployment, and a sharp drop in inflation all seemed to point to an interest rate cut soon.

At the same time, an unexpectedly large drop in public borrowing in October due to a surge in tax receipts eased the government's funding pressures.

This week, traders will have more economic data to analyse. M4 money supply figures due today are expected to show an acceleration in money growth last month, but weakness in October's figures could exaggerate the annual comparison.

UK non-EC visible trade figures are due tomorrow, while the CBI's industrial trends inquiry on Friday will provide a pre-Budget snapshot of confidence in industry.

Mr Don Smith of HSBC Markets thinks the market could be troubled by concerns over upward pressures on wage inflation. He said the union negotiators' rejection of Ford Motor's two-year wage deal weighed on the gilts market on Friday.



FRANKFURT — Andrew Fisher

Although speculation about a further cut in German short-term official interest rates was revived last week, the Bundesbank left them unchanged. This week, money supply and preliminary inflation figures will give the market more to ponder.

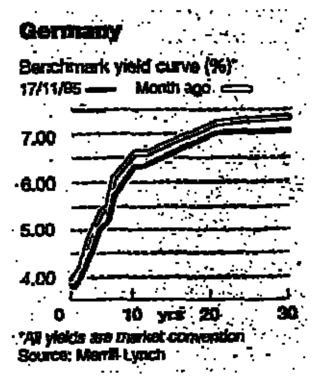
Economists forecast October M3 will have risen about 2 per cent after 1.6 per cent in September. UBS said this "has to be seen as a return to normal rather than a worrying acceleration. While the economy is weakening, strong M3 acceleration in the coming months is quite unlikely".

So further reductions in the discount and Lombard rates are still on the cards. The securities repurchase rate is still on the way down, last week slipping below 4 per cent.

Ms Alison Cottrell of PaineWebber foresees further repo cuts, culminating in a half point cut in official rates by early in the second quarter of 1996 and a repo rate of about 3.7 per cent.

She bases her expectations on the sluggish economy, lack of new upward pressure on wages, a federal budget which the Bundesbank can accept, moderate inflation, and poor business confidence.

"From mid-1996, a combination of tax cuts, wage gains and stable unemployment should see domestic consumption reviving and the bias of interest rates switching from downwards to sideways."



TOKYO — Emiko Terazono

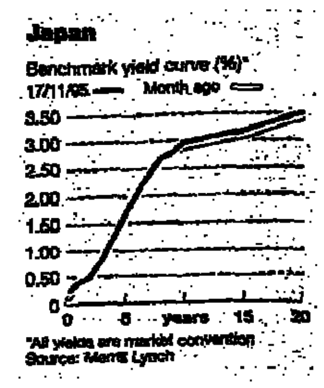
The government bond market has been volatile over the past week as domestic institutional investors, keen to see a 3 per cent coupon on the bonds to be auctioned this week, have tried to push up the benchmark yield.

The auction will be significant, says SBC Warburg in Tokyo, as it is likely to establish the next 10-year benchmark. A third Y1,000bn tranche will create an issue of significant size to take over from the existing benchmark, which now has a maturity of less than nine years, it says.

This Friday's interim earnings announcements for banks may have negative implications for the bond market. Some of the stronger banks may move to write off their bad loans this business year, and may move to take profits on their securities holdings.

Fuji Bank has already announced it would write off its bad loans related to the jusen, or ailing housing loan companies, and the government may encourage other banks to do the same in order to tackle the "Japan premium" problem and reduce overseas funding costs.

Meanwhile, bond market participants are focused on the ministry of welfare's possible decision to allow life insurers to cut their pay-out rates on group pensions from 4.5 per cent to 2.5 per cent, which would keep them buying into the JGB market.



Spanish bonds

Improvement in fundamentals lifts prices

In spite of a string of scandals tarnishing the socialist government, Spain's economic fundamentals have been improving, reinforcing the belief it will meet inflationary and budgetary targets for this year.

This is good news for Spanish government bonds, which have been putting on a strong performance recently on the back of encouraging inflation and public deficit data. They have also been supported by the bullish tone in most European bond markets last week, where bond-positive data releases and France's measures to control the budget deficit pushed prices higher.

Spanish consumer prices for October, announced last Tuesday, confirmed the trend towards an easing of inflationary pressures: they rose 0.2 per cent in October, lower than the 0.3 per cent expectation, and the headline inflation rate fell to 4.3 per cent from 4.4 per cent. By the end of 1995, headline inflation is expected to fall to 4 per cent and below that by next year, according to the Spanish economy ministry.

Nevertheless, Ms Carmen Hernanza, analyst at FG Sociedad de Valores in Madrid, thinks the Bank of Spain will have far greater difficulty in achieving the 3 per cent level of inflation by the end of 1997. Mr Jose Luis Alzola of Salomon Brothers in London shares this view, describing the central bank's 3 per cent inflation target as "ambitious".

Last week's September producer prices were also weaker than expected, up 0.3 per cent on the month, trimming the year-on-year rise to 6.6 per cent from 6.7 per cent.

There was more good news on the budgetary front: the cumulative state budget deficit for January to October fell by 8.5 per cent year-on-year, reaffirming the view that the government's target for a deficit-to-GDP ratio of 5.9 per cent for 1995 is attainable.

The trade deficit also saw positive figures, an 8.9 per cent drop compared with September 1994. Analysts at Salomon Brothers are calling the external sector "one of the brightest spots in the Spanish economy in 1995 and 1996".

They expect a slight current account surplus this year and investment and portfolio inflows to hold the peseta at a steady rate. Net tourism receipts, for instance, are expected to rise 10 per cent this year and to continue exceeding the trade deficit, mainly due to the late effects of the depreciation of the peseta in 1993.

Analysts at Analistas Financieros Internacionales in Madrid believe last week's indicators point to slower economic growth – real GDP growth is not expected to exceed 3 per cent this year. This is good news for bonds, which rallied early in the week until succumbing to profit-taking.

However, analysts said last week's correction provided a good buying opportunity. "We are currently in a bond-friendly environment," says Mr Craig Shute at Bear Stearns, who recommends investors to buy Spanish government bonds on weakness, in spite of political uncertainty ahead of the general elections next March. Regional elections held in Catalonia yesterday were expected to signal trends for the national elections.

Market participants are now hoping that lower inflation pressures will lead to cuts in Spain's interest rates. Last Tuesday the Spanish economy minister, Pedro Solbes, dropped hints that the Bank of Spain should do so, especially in the light of falling inflation and the peseta's appreciation this year. This was in spite of recent statements by central bank governor Mr Luis Angel Rojo that, due to fiscal uncertainty, a near-term cut in rates was out of the question.

However, analysts say Mr Rojo could reverse his position as a significant tightening of fiscal policy is already under way following the government's failure to pass the 1996 budget: the Catalan Nationalists, on whom the government depends for a majority, withdrew their support.

According to the Spanish constitution, the 1995 budget will be automatically rolled over and expenditures frozen.

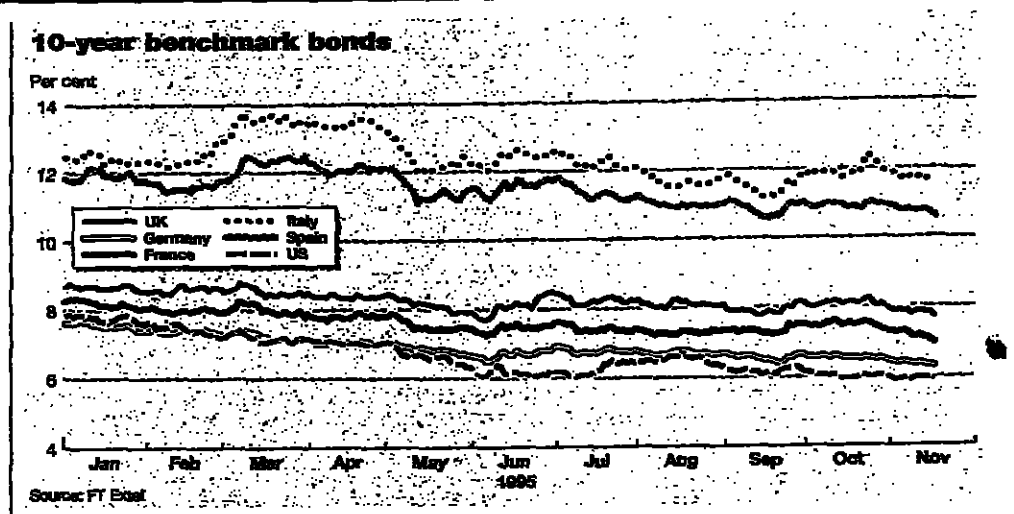
Nevertheless, amendments to the 1995 draft budget have been considered, for instance a 1.5 per cent reduction in the deficit to 4.4 per cent of GDP.

All these policies aim to achieve Spanish convergence with the Maastricht accord. The support of the main opposition party, Partido Popular, for the convergence programme has heartened the market, reinforcing investor confidence that Spain is getting its fiscal house in order.

The question which remains is when exactly the Bank of Spain might take the decision to cut interest rates. With general elections next March, some analysts say Mr Rojo may delay any change until after the polls. Economists at FG say rate cuts will depend on further monetary easing by Germany's Bundesbank.

Most analysts agree that the recent narrowing of the yield spread between Spanish and German government bonds reflects investor confidence in the Bank of Spain's monetary policy as well as hopes for continued fiscal discipline. The Spanish 10-year yield spread over bunds has fallen from a high of 535 basis points in March to 436 points on Friday.

Pilar Junco



INTEREST RATES AT A GLANCE

	US	Japan	Germany	France	Italy	UK
Discount	5.25	0.50	3.50	6.10	9.00	6.75
Overnight	5.69	0.38	3.88	n.a.	10.25	6.75
Three month	5.61	0.25	3.88	5.50	10.50	6.65
One year	5.41	0.50	3.60	5.38	10.64	6.50
Five year	5.66	1.45	5.14	6.49	11.25	7.15
Ten year	5.92	2.86	6.33	6.97	11.84	7.78

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	117-26	117-31	+0-05	118-05	117-19	442,828	359,595
Mar	117-17	117-21	+0-05	117-29	117-08	34,358	86,865
Jun	117-05	117-05	+0-08	117-10	117-00	812	12,519

US Treasury bonds

Traders shrug off the fiscal follies

Mr Woody Jay, head of global government trading at Lehman Brothers, does not like basing trades on events in Washington. "Politicians have different agendas than financial markets; I don't feel good about [trading on politics]," he says.

Yet optimism replaced jitteriness on the US Treasury market last week, even as squabbling between the president and Congress over the shape of next year's budget became so intense it forced a partial closure of the government.

The benchmark 30-year Treasury soared, pushing the yield down 10 basis points to levels not seen since January 1994, just before the Federal Reserve began raising interest rates.

One reason for the bullish tone is that the current bickering in Washington is quite different from past budget-related disputes in that both sides are intent on cutting the budget.

"If the hold-out means the government shuts down for a week and a balanced budget is on the back of it, the market is okay with that," Mr Jay says.

Mr John Lipsky, chief economist at Salomon Brothers, agrees the market is cheered by the growing possibility that the deficit will be cut, but adds that last week's data showing slowing consumer spending and manufacturing activity were just as important.

"The news has been dominated by the fiscal follies, but the more solid reason for the market's advance is the underlying economic fundamentals," he says.

In addition, the weak economic statistics prompted speculation that the Fed might lower interest rates, even before a budget package is signed into law. Until last week, the conventional wisdom on Wall Street held that the Fed was holding out the prospect of a rate cut as a reward to deficit-cutting politicians.

But some on Wall Street think the market may have got ahead of itself and priced in too much good news about the deficit and inflation.

Mr Robert Brusca, chief economist at Nikko Securities, thinks that inflationary pressures are looming that will put an end to months of tame figures on inflation.

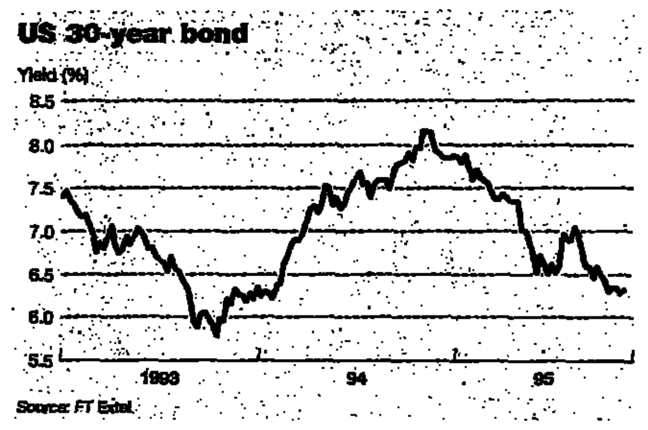
This week, traders will cast an eye towards Washington, but more important may be the spate of supply set to hit the market through two Treasury auctions delayed since the start of the month. Today the Treasury is to sell $18bn in three-year notes, and tomorrow $13.5bn in 10-year notes.

Last week, those medium-term issues underperformed the long and short ends of the maturity spectrum as traders prepared for the auctions, and they say those issues could weaken further this week.

Skittishness could also return to the market if the government shut-down begins to threaten the collection and release of economic data.

This week there is a question about whether the Commerce Department will release figures on the September trade balance. The market has not paid a great deal of attention to these figures for the past few months, but fears of disruptions in other data series could worry investors concerned about the direction of the economy.

Lisa Bransten



NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
ACCMT 2, Class A1(a)★	378	Aug.2000	6.05	99.839R	6.165	+44(5¾%-00)	Salomon Brothers
ACCMT 2, Class A2(a)★‡	378	Aug.2000	(a1)	100.00R	-	-	Salomon Brothers
Banca CRT‡	150	Nov.2000	(b)	99.804R	-	-	Merrill Lynch Intl.
Citi Investments	50	Nov.1998	9.25§	100.705R	8.500	+304(T-bill)	Citibank International
CMCCT 1, 1995-3, Cls.A(d1)	450	Aug.2002	6.23	99.9531R	6.420	+48(6⅞%-02)	Chemical Securities
CMCCT 1, 1995-4, Cls.A(d2)‡	300	Nov.2002	(d3,e)	99.91R	-	-	Chemical Securities
MMCCT 2, 1995-J, Cls.A(e)‡	435	Nov.2002	(e1)	100.00R	-	-	JP Morgan Securities
Telstra Corp.	250	Nov.2005	6.50	99.70R	6.542	+48(6½%-05)	JP Morgan Securities
Cadbury Schweppes	200	Dec.1998	5.875	99.962R	5.888	+22(WI 3yr)	Deutsche Morgan G'fell
DSB, Sao Paolo Branch(f)	70	Nov.1998	9.50	99.875R	9.550	+378(5⅞%-98)	Dresdner Bank
Banco Itamarati(Grd.Cayman)	50	Nov.1998	10.50#	99.992R	10.51	+500(7¼%-98)	JP Morgan Securities
SNCF	250	Dec.1998	5.50	99.515R	5.680	+5(WI 3yr)	BNP /CSFB /DKB Intl.
World Bank★	50	Nov.2000	5.00#	97.894	5.487	-	Kokusai Europe
Fed. Home Loan Mtg.Corp(w)	100	Nov.2000	6.10#	100.00	6.100	+43(5¾%-00)	Lehman Brothers Intl.
Christiania Bk.& Kreditkasse‡	100	Dec.1997	(u)	99.93R	-	-	Chemical Inv. Bank
D-MARKS							
Deutsche Ausgleichsbank	500	Nov.2005	6.50	99.295R	6.607	+29(6½%-05)	Dresdner Bank
Sta.of Baden-Wuerttemberg(s)	500	Sep.2005	6.50	102.19	-	-	ABN Amro HS, Frt.
Sudwest. LB Capital Markets	350	Dec.2000	5.25	99.44R	5.381	+31(5¾%-00)	UBS Germany
Korea Export-Import Bank	350	Dec.1998	5.00	101.75	4.365	-	Commerzbank
Oest. Investitionskredit	200	Dec.2002	6.125	101.875	5.792	-	DG Bank
Telekom Post Finanz.(g)	150	Nov.1997	4.30	100.00R	4.300	+20(5¼%-97)	Merrill Lynch Bank
Inter-American Dev't ment Bank	140	Dec.2000	5.00	98.91	5.254	+20(5¾%-00)	Nikko Bank (Deutsch.)
CNCP/NKBK Intl.Finance	100	Dec.2000	5.75	102.10	5.261	-	SGZ Bank
Frankfurter Hypo.(p,q,s)	1bn	Jan.2002	5.75	101.02	-	-	By.Hypo/D'che/Dresdner
CS First Boston(s)	150	Apr.2004	7.00	100.15R	6.98	+76(6¼%-04)	CSFB-Effectenbank
Depfa Bank(p,s)	1bn	Dec.2000	5.25	100.79	-	-	ByHypo/ByrLB/Cbnz/DG
Eksportfinans★	600	Dec.2001	zero	71.505	5.744	-	Daiwa Europe(Deutsch.)
World Bank	200	Dec.1998	4.00	100.00	4.000	-	IBJ (Deutschland)
YEN							
Nationwide Building Society‡	15bn	Dec.2000	(c)	100.15	-	-	UBS
Swedish Export Credit★	10bn	Nov.1997	zero	99.65	0.175	-	Morgan Stanley Intl.
Kingdom of Sweden(y)★	50bn	Dec.2010	3.23	100.49	-	-	Daiwa Europe
Inter-American Dev.Bank(s)★	30bn	Feb.2002	2.25	100.00R	-	-	Nikko Europe
Belgacom★	10bn	Dec.2015	(l)	100.50	-	-	Daiwa Europe
International Finance Corp.★	15bn	Nov.2025	(k)	100.40	-	-	DKB International
Baden(m)★	10bn	Dec.1998	5.00#	100.00	-	-	Nikko Europe
Bayerische Vereinsbank★	50bn	Dec.2001	2.15#	100.20	2.114	-	Sanwa International
International Finance Corp.★	20bn	Nov.2025	(t)	100.58	-	-	IBJ International
GUILDERS							
Philips Electronics	300	Dec.2000	5.75	99.83R	5.790	+40(5¼%-00)	ING Bank
SWISS FRANCS							
City of Vienna(l)	220	Jan.2002	3.50	102.50	-	-	v.Ernst/BJ/Merrill/SBC
International Endesa‡	150	Jan.2000	(b)	100.50	-	-	Credit Suisse
SNCF	250	Dec.2002	3.75	103.30	3.220	-	Credit Suisse
Dresdner Finance	200	Jan.2004	4.00	103.65	3.470	-	Credit Suisse/ Dresdner
ABN Amro Bank	200	Jan.2002	3.75	103.45	3.111	-	ABN Amro(Switz)/ UBS
DSL Bank	150	Jan.2003	3.75	102.75	3.304	-	UBS
FRENCH FRANCS							
Compagnie Bancaire‡	1bn	Jun.1997	(o)	100.025R	-	-	CCF
Bayerische Landesbank	318	Dec.2006	(x)	100.772R	7.08	-	CDC
LUXEMBOURG FRANCS							
Mortgage Bank of Denmark	2bn	Dec.2003	zero	60.90	6.395	-	BIL
Banque Générale du Lux.	2bn	Jan.2001	5.875	102.25	5.350	-	BGL
Banque Internationale à Lux.	2bn	Jan.2002	6.125	102.20	5.682	-	BIL
ITALIAN LIRE							
European Investment Bank	400bn	Dec.2005	10.875	101.28	10.66	-	HSBC/ San Paolo, Torin
Telecom Argentina	300bn	Dec.1997	14.00	99.77R	14.14	-	BCI/ JP Morgan Secs.
World Bank(v)	300bn	Dec.1997	10.60	101.12	-	-	Credito Italiano
AUSTRALIAN DOLLARS							
World Bank★	150	Dec.1999	5.00	94.575	7.070	-	Kankaku (Europe)
PESETAS							
Helaba Finance	15bn	Dec.2000	10.10	101.31	9.757	-	Banco Central Hispano
DANISH KRONER							
DSL Bank	500	Dec.2002	zero	62.90	6.933	-	Bank Brussels Lambert
DRACHMAS							
International Finance Corp.‡	40bn	Dec.1998	(l)	100.10	-	-	Natl.Mtg.Bk. of Greece
CZECH KORUNA							
Deutsche Bank Finance	1bn	Dec.1998	10.50	100.90	10.14	-	Deutsche Morgan G'fell

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ΦWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Advanta Credit Card Master Trust. Legal maturity: 7/8/02. Controlled amortisation. Average life: 4.94 yrs. Monthly coupons. a1) 1-mth Libor +19bp. a2) Class B: $44.625m, soft bullet, Feb.01, average life 5.2 yrs, 1-mth Libor +30bp, par. b) 3-mth Libor +⅛%. c) 3-mth Libor -5bp. d) Chemical Master Credit Card Trust. d1) Legal maturity: 15/4/05. Monthly coupons. d2) Legal maturity: 15/7/05. d3) 3-mth Libor +20bp. e) MBNA Master Credit Card Trust. Legal maturity: 15/4/05. e1) 1-mth Libor +23bp. e2) Tranche B: $22½m, 15/12/02, 1-mth Libor +35bp. f) Deutsch-Suedamerikanische Bank. g) Backed by obligations of Republic of Austria. h) Short 1st & last coupons. i) Over interpolated yield. j) 5.86% in A$ or 5.31% in DM or 6.61% in US$ at issuers option. Short 1st & 2nd coupons. k) 6% in A$ or 5.56% in DM. l) Long 1st coupon. m) Coupon in Yen, redemption in $. n) 3-mth Libor -⅛%. o) 3-mth Pibor +5bp. p) Oeffentliche pfandbrief. q) Plus 19 days accrued. 1st coupon 7 months. r) 6% in A$ or 5.56% in DM. s) Short 1st coupon. t) 1-mth Aibor -40bp. u) 3-mth Libor +⅛%. v) Callable on 18/12/96 at par. w) Callable from 27/11/98 at par. x) Respective annual coupons: 1.81, 1.79, 1.73, 1.67, 10.98, 11.05, 11.12, 11.17, 12.04, 12.67, 13.45. Note: Yields are calculated on ISMA basis.

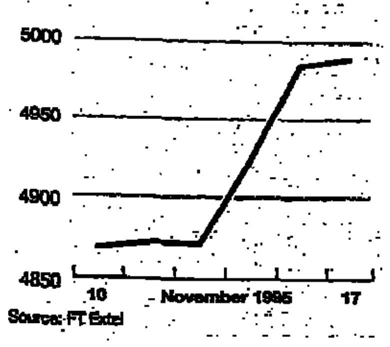
هكذا من الأصل

EQUITY MARKETS: This Week

NEW YORK

Maggie Urry

Dow poised to break through 5,000 level



The main event for the US equity market this week could take place as soon as this morning, with the Dow Jones Industrial Average poised to break through 5,000 for the first time. If it does, it will be the second time this year the index has passed through a 1,000 point level.

Two other important considerations for investors this week are the continuation, or perhaps conclusion, of budget wrangling in Washington, and the Thanksgiving holiday on Thursday. The market will be closed on Thursday and trading is likely to be subdued on Wednesday and Friday.

Even so, the row between the president and Congress over the budget could push the market higher or lower. If the Republican controlled Congress looks like winning and getting its seven-year plan to eradicate the budget deficit on to the statute books, the stock market should be delighted.

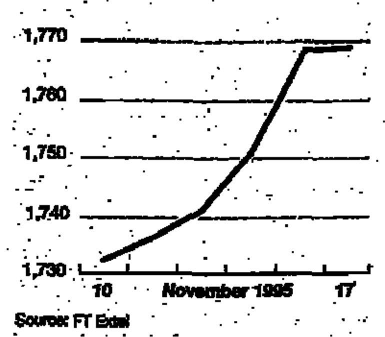
Along with budget cuts, investors have been promised tax cuts, including a retroactive reduction in the gains tax rate. However, any sign that the president is gaining ground could depress equities.

Among economic statistics due, the budget deficit for October is expected to have been $29bn, against a $7.3bn surplus in September. Trade figures on Tuesday are expected to show that deficit still widening in September, to a median forecast of $9.9bn, according to MMS International, worse than August's $8.8bn deficit.

LONDON

Philip Coggan

FT-SE moves into uncharted territory



Having broken through the 3,600 barrier on Thursday, the FT-SE 100 Index starts the week in uncharted territory.

The all-time high was partly a response to the record Wall Street close, but it was also fuelled by hopes of interest rate cuts to follow the tax reductions expected in this month's budget.

Gilts have been giving shares a lift, especially in the wake of last week's subdued inflation news, with the yield on the 10-year benchmark issue falling to a 1995 low of 7.69 per cent last Thursday.

Unless today's third-quarter gross domestic product estimate is surprisingly revised, the only domestic news which could disrupt the market is likely to come from Friday's Confederation of British Industry monthly trends survey.

The CBI data is often studied by analysts as a guide to pricing pressures and corporate sentiment.

There is a full calendar of results announcements, with such substantial groups as Courtaulds, De La Rue, Granada, Northern Foods, Storehouse, Thorn EMI and Vodafone reporting.

Following profit warnings last week from companies such as Arjo Wiggins Appleton and BICC, investors will be watching to see whether the slowing economy, which has sparked hopes of base rate cuts, is having adverse effects on earnings growth across a broad swathe of UK industry.

OTHER MARKETS

PARIS

Delighted by the government's tough stand on bringing the budget deficit under control, the CAC-40 index raced ahead at the end of last week, only to fall back on Friday as profits were booked, *writes John Pitt.*

Some analysts expect the rally to resume this week, but there are warnings that a sustainable up-trend may be hard to maintain. There are also fears of corporate earnings' downgrades as fiscal tightening begins to make itself felt.

ZURICH

Nestlé reports 10-month sales and volume growth figures on Wednesday, but the data are not expected to cause much of a stir in one of Europe's best-performing markets this year.

The shares have sharply underperformed the market during 1995, but some analysts have been upgrading their recommendations in recent weeks.

The market expects marginally better volume growth of about 3 per cent during the January-October period, with sales growth in foreign currency terms rising by about 8.5 per cent. However, the strength of the Swiss currency will reduce that in franc terms to −0.5 or −1 per cent, compared with −2 per cent in the first half.

Rather more excitement may be generated this week by SMH, one of the market's favourite shares earlier in the year. Over the past couple of years the stock has been pressured by worries about demand for the company's watches in the run-up to Christmas. This year looks unlikely to be an exception.

MILAN

Investors may be forgiven for hoping that the December monthly account, which began last Thursday, will prove more upbeat than the November account period.

That saw prices under pressure due to the increasingly uncertain political atmosphere and the fact that many fund managers were making room in their portfolios for the new shares in Eni, the energy giant being sold off by the government.

Politics are likely to continue to hold the key during the coming week as the market keeps a wary eye on the parliamentary progress of the 1996 budget through the lower house and hints on timing of the next general election.

On the corporate front, the Eni shares officially go on sale tomorrow. Up to half of the offer has been earmarked for Italian retail investors but their initial response last week was tepid.

Investors will also be hoping for at least some of the mist to clear at Gemina, after directors of the investment company and RCS Editori, its publishing subsidiary, meet today to discuss the financial problems of RCS.

FRANKFURT

Third-quarter figures today from Mannesmann, the diversified German engineering and telecoms group, will provide some focus. At the half-year stage, the company said that strong results in telecoms had helped it to a net profit of DM141m, compared with a loss of DM27m a year earlier. But at the same time, some analysts cut their forecasts for 1995.

Today, UBS expects the order intake to re-accelerate to about 15 per cent after the 10 per cent growth seen at the half-year stage, supported by strong underlying demand for short cycle products as well as good large order bookings.

On the economic front, a whole raft of indices is expected this week, including M3 for October along with consumer, producer and wholesale prices.

The IFO business climate index for October is due, as is the Icon institute's consumer climate index.

TOKYO

Investors are braced for the banking sector's interim earnings, scheduled to be announced this Friday, *writes Emiko Terazono.*

A clear indication of the banks' strategy in dealing with their bad debt problem could prompt buying in the stronger banks.

The president of Fuji Bank recently said that it intended to write off its bad debts stemming from the housing loan companies, adding that it might even post losses due to the write-offs.

Some of the stronger banks are expected to announce their restructured loans for the first time, setting them apart from their weaker counterparts, which cannot afford to do so.

Such announcements could prompt buying by foreign investors, who are underweight in the banking sector.

HONG KONG

After two weeks of plummeting stock prices, led most recently by the former Chinese enterprises or H shares, brokers are looking for a return to quiet optimism this week, *writes Louise Lucas.*

Brokers reckon that the H shares, which came under intensive selling pressure last week as speculation loomed of mounting tax bills for the original nine companies listed in the colony, have already factored the bad news into their share prices.

They say that there is now evidence of switching between China plays, rather than selling out altogether.

However, liquidity is likely to remain moderate as investors seek safer havens, such as the US.

Caution has again been prompted by the fall of the Mexican peso, which has reverberated around Asia's perceived emerging markets.

Brokers, however, suggest that investors may be sufficiently savvy this time round to stay invested in Hong Kong, or possibly even divert funds from markets like Thailand, Malaysia and the Philippines, into the colony.

Compiled by Michael Morgan

International offerings

Nutricia growth potential bodes well for Unigate

Just as the international primary equity market looked like it was slowing down ahead of the Christmas festivities, some exciting new offerings have popped up to keep bankers and investors busy.

The most significant deal in terms of size is the sale of Unigate's 29 per cent holding in Nutricia, the Dutch specialised foods group which is also Europe's largest baby food maker since it bought Germany's Milupa in August.

The Unigate stake, worth more than £300m, is likely to be snapped up by investors because of Nutricia's growth potential and the defensive nature of its business.

Several investment banks are bullish on the stock, because of synergies and restructuring benefits arising from the Milupa deal, and some analysts project average earnings per share growth of 24 per cent into 1999.

Book-building is expected to start this week and the process should be swift, rather like Pearson's September disposal of shares in BSkyB. There will be a 144a offering into the US.

Investors are familiar with Nutricia's investment case following its recent convertible bond issue and a private placement of shares. Unigate expects to receive the proceeds of its sale by December.

Perhaps the biggest surprise was that SBC Warburg won the global co-ordinator and book-runner mandate, much to the chagrin of its competitors, with ABN Amro Hoare Govett as joint global co-ordinator. BZW and Cazenove are likely to have senior roles in what should be a small syndicate.

Mr John Worby, Unigate's finance director, said last week that SBC Warburg had been chosen on the strength of its corporate finance advice with respect to the disposal of the Nutricia stake. "SBC Warburg's track record is difficult to beat," he said.

For SBC Warburg, the high-profile mandate has done much to restore its reputation in the market, which has suffered after its change of ownership and the defection of senior bankers. Mr Rory Tapner, its global head of equity capital markets, said winning the deal showed that the bank was still a force in the market.

On a smaller scale, but equally interesting, is the initial public offering of shares in Besi, a Dutch manufacturer of capital equipment for the semiconductor industry. The $96m offering, being arranged by Morgan Stanley, involves the sale of about 40 per cent of the company by its owner, Berliner Elektro, a quoted German investment fund.

The stock, which will be listed in Amsterdam, on Nasdaq and on Seaq International, should appeal to investors looking for another dimension to the recent love affair with "tech stocks", analysts said. The offering is expected to be priced in the week of December 4, and is already believed to be oversubscribed.

The jury is out, however, on whether the French government's privatisation of Pechiney, the aluminium and packaging giant, will achieve a similar result. Although a stronger domestic stock market and the cheap sale price should work in the government's favour, investors have to consider the poor outlook for aluminium prices and the stock market performance of past French privatisations.

One banker believed the Pechiney sale would beat market expectations as much of the bad news was in the price and because of the positive impression Mr Jean-Pierre Rodier, the company chairman, was giving to investors. "The feedback is much more upbeat this time round," he said.

However, other bankers are not so sure that Pechiney would be the company to lift the cloud over the government's privatisation programme.

The sharp contrast between the investor response to large privatisation deals, some of which are barely getting done, and smaller "niche" offerings, which are vastly oversubscribed, is causing concern to bankers, especially those who have been retained to arrange privatisation offerings next year.

One offering which most bankers are hoping to have a slice of next year is the flotation of Hutchison Telecom (HTUK), which operates the fast-growing Orange mobile phone network in the UK. They expect the high-growth stock to have a wide appeal to both mainstream investors and to managers of specialist telecom and "tech" funds.

Goldman Sachs and Kleinwort Benson, advising HTUK, are virtually certain to be joint global co-ordinators of the deal, which is likely to value the company at a minimum of £2bn. Many bankers expect the offering, of about one quarter of the company, to be the most important non-privatisation deal of the first quarter of 1996.

No final decision has been taken on whether to float, but HTUK has asked about 20 banks to make written pitches for a place in the syndicate. Banks which have participated in HTUK's £1.2bn credit facility are likely to be rewarded.

Meanwhile, bankers are also busy pitching for next year's mandates. News that the Spanish government is planning to sell another tranche in Argentaria, the banking group, has caused some excitement. However, Morgan Stanley is believed to be the favourite to lead the deal, having arranged the previous two offerings.

Equally, the mandate for the residual state holding in Repsol is up for grabs; Goldman Sachs is favourite given its past relationship with the company.

Banks are also pitching for a role in the Australian government's sale of its remaining stake in Commonwealth Bank of Australia. The deal could be worth $500m but is unlikely to emerge until after the general election, which could take place in March.

● Roadshows for the sale of the Norwegian government's remaining 17.8 per cent stake in Christiania Bank started on Friday and pricing is expected to be announced during the week of December 4. The government hopes to raise about $200m.

Antonia Sharpe

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 17 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Nov 17 / Frs.)

[illegible]

CZECH REP (Nov 17 / Korunas)

[illegible]

DENMARK (Nov 17 / Kr)

[illegible]

FINLAND (Nov 17 / Mkk)

[illegible]

FRANCE (Nov 17 / Frs.)

[illegible]

GERMANY (Nov 17 / Dm.)

[illegible]

GREECE (Nov 17 / Drachma)

[illegible]

ITALY (Nov 17 / Lire)

[illegible]

NETHERLANDS (Nov 17 / Fls.)

[illegible]

NORWAY (Nov 17 / Kroner)

[illegible]

POLAND (Nov 17 / Zloty)

[illegible]

PORTUGAL (Nov 17 / Escudo)

[illegible]

SPAIN (Nov 17 / Pts.)

[illegible]

SWEDEN (Nov 17 / Kronor)

[illegible]

SWITZERLAND (Nov 17 / Frs.)

[illegible]

TURKEY (Nov 17 / TL Lira)

[illegible]

PACIFIC

JAPAN (Nov 17 / Yen)

[illegible]

AUSTRALIA (Nov 17 / Aus$)

[illegible]

HONG KONG (Nov 17 / H.K.$)

[illegible]

INDONESIA (Nov 17 / Rupiah)

[illegible]

MALAYSIA (Nov 17 / MYR)

[illegible]

NEW ZEALAND (Nov 17 / NZ $)

[illegible]

SINGAPORE (Nov 17 / S$)

[illegible]

SOUTH KOREA (Nov 17 / Won)

[illegible]

TAIWAN (Nov 17 / TW $)

[illegible]

THAILAND (Nov 17 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Nov 17 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Nov 17 / Can $) 4 pm close

[illegible]

MONTREAL (Nov 17 / Can $) 4 pm close

[illegible]

INDICES

	Nov 17	Nov 16	Nov 15	1995 High		1995 Low	
Argentina							
General (29/12/77)	13801.13	13435.64	13065.98	16531.10	2/1	9831.09	9/3
Australia							
All Ordinaries(1/1/80)	2119.7	2106.1	2110.3	2188.00	18/9	1823.30	8/2
All Mining(1/1/80)	980.0	974.7	976.9	1029.50	7/8	786.30	8/2
Austria							
Credit Aktien(30/12/84)	333.39	332.71	333.01	395.42	3/1	328.59	27/10
Traded Index(2/1/91)	901.45	901.36	902.18	1058.31	3/1	882.15	23/10
Belgium							
BEL20 (1/1/91)	1459.44	1457.83	1446.64	1491.39	2/8	1271.53	9/3
Brazil							
Bovespa (29/12/83)	40636.0	40036.0	(c)	49812.00	19/9	21382.00	9/3
Canada							
Metals Minls◆(1975)	4937.97	4927.03	4927.74	5252.77	21/8	3806.88	1/3
Composite◆ (1975)	4599.80	4575.70	4560.50	4710.30	12/7	3991.41	30/1
Portfolio§§ (4/1/83)	2235.49	2222.42	2215.69	2307.81	12/7	1953.36	30/1
Chile							
IGPA Gen♥(31/12/80)	5594.5	5569.7	5582.8	6383.10	11/7	4576.90	9/3
Denmark							
CopenhagenSE(3/1/83)	355.63	355.34	354.52	376.44	25/8	330.01	29/3
Finland							
HEX General(28/12/90)	1829.19	1843.88	1871.98	2332.22	14/9	1555.30	29/3
France							
SBF 250 (31/12/90)	1248.51	1253.66	1233.71	1322.30	12/5	1154.41	13/3
CAC 40(31/12/87)	1890.52	1905.14	1875.18	2017.27	12/5	1721.14	23/10
Germany							
FAZ Aktien(31/12/58)	788.89	790.75	785.88	846.79	19/9	708.87	30/3
Commerzbank(1/12/53)	2292.90	2294.80	2281.50	2427.60	19/9	2018.70	30/3
DAX (30/12/87)‡	2201.28	2200.72	2186.17	2317.01	15/9	1910.96	28/3
Greece							
Athens SE(31/12/80)	894.41	895.59	898.23	992.58	4/8	787.15	16/3
Hong Kong							
Hang Seng(31/7/64)	9287.90	9367.65	9431.38	10032.93	17/10	6967.93	23/1
India							
BSE Sens.(1979)	3103.03	3143.18	3158.38	3932.09	2/1	3018.07	3/5
Indonesia							
Jakarta Comp.(10/8/82)	458.34	459.90	460.81	519.18	11/6	414.21	19/4
Ireland							
ISEQ Overall(4/1/88)	2225.84	2217.42	2178.15	2225.84	17/11	1813.59	23/1
Italy							
Banca Comm Ital (1972)	573.13	573.02	561.07	680.54	10/2	555.09	23/10
MIB General (2/1/95)	905.0	905.0	886.0	1078.00	10/2	877.00	23/10
Japan							
Nikkei 225 (16/5/49)	18151.16	17939.52	17682.74	19684.04	4/1	14485.41	3/7
Nikkei 300 (1/10/82)	269.82	266.84	264.07	286.16	4/1	222.26	13/6
Japan							
Topix (4/1/68)	1439.26	1424.85	1411.57	1553.40	4/1	1193.16	13/6
2nd Section (4/1/68)	1876.07	1862.35	1866.89	2130.88	4/1	1441.90	13/6
Malaysia							
KLSE Comp.(4/4/86)	888.91	894.04	895.47	1085.04	5/6	840.87	24/1
Mexico							
IPC (Nov 1978)	(u)	2262.48	2260.18	2622.21	8/9	1447.82	27/2
Netherland							
CBS TtlRtnGen(End 83)	501.0	499.3	497.1	511.80	19/9	422.90	23/3
CBS All Shr (End 83)	303.4	302.3	301.0	311.10	15/9	265.20	23/3
New Zealand							
Cap. 40 (1/7/86)	2155.57	2155.02	2184.44	2208.62	20/10	1901.43	5/1
Norway							
Oslo SE(Ind)(2/1/83)	1206.55	1207.82	1207.43	1292.16	18/10	1036.00	10/3
Philippines							
Manila Comp (2/1/85)	2354.08	2291.40	2315.26	2958.12	10/7	2249.39	27/3
Portugal							
BTA (1977)	2471.6	2489.4	2512.0	2911.80	9/1	2471.60	17/11
Singapore							
SES All-S'pore(2/4/75)	506.84	508.76	505.80	535.08	5/1	472.90	23/1
South Africa							
JSE Gold (28/9/78)	1353.2♥	1332.3	1326.2	2023.00	2/1	1280.20	30/10
JSE Indl. (28/9/78)	7675.1♥	7673.3	7618.2	7678.50	7/11	6222.00	31/1
South Korea							
KoreaCmpEx(4/1/80)**	952.36	933.95	937.04	1027.37	2/1	847.09	27/5
Spain							
Madrid SE (30/12/85)	300.12	301.57	298.52	318.98	13/9	264.06	23/3
Sweden							
AffarsvardnGen (1/2/37)	1703.8	1697.5	1688.6	1872.10	19/9	1430.80	29/3
Switzerland							
Swiss Bk Ind (31/12/58)	1442.65	1437.42	1429.44	1442.65	17/11	1174.63	13/3
SBC General (1/4/87)	1082.51	1080.36	1074.79	1082.80	9/11	870.58	13/3
Taiwan							
WeightedPr.(30/6/66)**	4566.08	4639.28	4608.70	7051.49	5/1	4503.37	14/8
Thailand							
Bangkok SET (30/4/75)	1195.18	1174.62	1175.09	1472.04	10/7	1135.89	18/3
Turkey							
Istanbul Comp.(Jan 1986)	42833.1	42715.7	42654.7	54853.98	21/4	24844.31	23/1
WORLD							
MS Capital Int (1/1/70)$	704.6*	702.8	700.2	704.60	17/11	598.21	23/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1432.65	1432.37	1412.62	1480.68	15/9	1222.41	13/3
Euro Top-100 (26/6/90)	1294.31	1297.8	1283.65	1316.68	15/9	1117.34	9/3
JCapeDgns (31/12/88)	(c)	280.28	315.13	349.47	14/7	262.07	23/1
Barings Emerg.(7/1/92)	134.80	133.59	133.40	150.07	2/1	117.15	10/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index)							
Nov	1906.0	1903.0	-11.0	1914.0	1888.0	13,142	29,282
Dec	1916.5	1912.0	-11.5	1922.0	1910.0	1,021	21,140
DAX							
Dec	2208.0	2200.0	-8.5	2215.5	2191.5	16,834	-
Mar	2228.5	2221.0	-8.0	2235.5	2218.0	350	-
OMX							
Nov	1355.00	1346.25	-2.75	1360.00	1340.50	2,522	14,256
Dec	1358.00	1357.75	+1.25	1358.00	1350.50	848	3,073
SOFFEX							
Dec	3159.8	3160.0	+7.5	3172.0	3152.6	5,817	8,605
Jan	3165.0	3165.0	+15.0	3165.0	3165.0	38	709

** Sat Nov 11: Taiwan Weighted Price 4718.60; Korea Comp Ex 976.29. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ◆ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Nov 17 – 2196.59 –5.91.

† Correction. * Calculated at 15.00 GMT. ◆ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ◆ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Nov 17	Nov 16	Nov 15	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	4989.95	4969.36	4922.75	4989.95 (17/11)	3832.08 (30/1)	4989.95 (17/11/95)	41.22 (2/7/32)
Home Bonds	104.26	104.26	104.16	104.26 (16/11)	93.63 (3/1)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2005.63	1989.20	1986.86	2018.45 (6/11)	1473.19 (3/1)	2018.45 (6/11/95)	12.32 (8/7/32)
Utilities	216.39	215.27	214.34	219.09 (25/10)	183.03 (3/1)	256.45 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5022.10 (5003.68) Low 4934.31 (4902.16) (Theoretical◆) Day's high 4996.45 (4973.33) Low 4959.24 (4920.95) (Actual◆)

Standard and Poors	Nov 17	Nov 16	Nov 15	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite ‡	600.07	597.34	593.96	600.07 (17/11)	459.11 (3/1)	600.07 (17/11/95)	4.40 (1/6/32)
Industrials♥	705.97	703.25	700.19	705.97 (17/11)	546.28 (3/1)	705.97 (17/11/95)	3.62 (21/6/32)
Financial	60.21	58.74	58.94	61.39 (18/10)	41.64 (3/1)	61.39 (18/10/95)	8.64 (1/10/74)
NYSE Comp.	320.12	318.48	316.47	320.12 (17/11)	250.73 (3/1)	320.12 (17/11/95)	4.46 (25/4/42)
Amex Mkt Val	531.96	529.46	527.22	553.89 (12/9)	433.12 (6/1)	553.58 (12/9/95)	29.31 (9/12/72)
NASDAQ Cmp	1045.03	1044.48	1041.85	1067.40 (13/9)	743.58 (3/1)	1067.40 (13/9/95)	54.87 (31/10/72)

RATIOS

	Nov 10	Nov 3	Oct 27	Year ago
Dow Jones Ind. Div. Yield	2.39	2.41	2.46	2.78
	Nov 15	Nov 8	Nov 1	Year ago
S & P Ind. Div. yield	2.03	2.04	2.07	2.38
S & P Ind. P/E ratio	18.37	18.23	17.99	19.03

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Cdn Nat Rail	22,329,000	15	+3
Kmart	12,313,300	8	+½
Estee Lauder	8,914,200	34½	+8½
Micron	6,225,900	54⅝	-⅛
Telefonos	5,637,900	27¼	+1¾
AT&T	4,674,900	65¾	+½
Walmart	4,605,400	23⅞	+⅛
H Packard	4,573,300	88½	-4½
Gen Elec	4,325,100	67	-⅜
Waters Corp	3,176,500	15⅛	+⅛

TRADING ACTIVITY

● Volume (million)	Nov 17	Nov 16	Nov 15
New York SE	429.393	418.433	373.065
Amex	15.976	16.398	17.847
NASDAQ	(u)	505.439	472.019
NYSE			
Issues Traded	3,093	3,074	3,063
Rises	1,367	1,510	1,203
Falls	908	799	1,042
Unchanged	810	765	818
New Highs	140	179	105
New Lows	28	33	36

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Dec	599.85	601.15	+1.25	601.95	599.15	85,382	199,840
Mar	605.00	606.40	+1.40	607.10	604.50	3,712	16,640
	Open	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Nikkei 225							
Dec	18110.0	18150.0	+160.0	18210.0	18010.0	16,965	165,392
Mar	18160.0	18210.0	+180.0	18250.0	18070.0	2,230	16,231

Open interest figures for previous day.

TOKYO - MOST ACTIVE STOCKS: Friday, November 17, 1995

	Stocks Traded	Closing Prices	Change on day
Japan Energy	8.3m	309	-1
Sakura Bank	8.1m	1080	+30
Nippon Steel Corp	7.3m	350	
Nitto Boseki	6.5m	298	+21
Sumitomo Mtl Ind	6.4m	296	-2
Daido Stl Sheet	5.0m	1330	+46
Mitsui Min & Sml	4.6m	401	+4
Takara Shuzo	4.5m	1030	+10
NKK Corp	4.4m	263	
Takaoka Elec Mfg	4.3m	618	+35

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (daily). ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Nov 17		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.3431	-0.0933	349 - 513	15.4189	15.2957	15.3127	2.4	15.2541	2.3	-	-	107.3
Belgium	(BFr)	44.8557	-0.277	102 - 012	45.1420	44.7400	44.7507	2.8	44.5557	2.7	43.7707	2.4	109.9
Denmark	(DKr)	8.4528	-0.0501	477 - 578	8.4926	8.4281	8.4451	1.1	8.4286	1.1	8.3861	1.0	110.3
Finland	(FM)	6.5057	-0.0426	978 - 136	6.5470	6.4910	6.5013	0.8	6.4932	0.8	-	-	89.0
France	(FFr)	7.5300	-0.0317	237 - 363	7.5566	7.5040	7.5257	0.5	7.5388	-0.5	7.5356	-0.1	111.0
Germany	(DM)	2.1803	-0.0132	792 - 814	2.1906	2.1728	2.1755	2.7	2.1658	2.7	2.1246	2.6	112.7
Greece	(Dr)	361.251	-2.176	057 - 445	362.951	359.972	-	-	-	-	-	-	66.9
Ireland	(I£)	0.9692	-0.0022	682 - 701	0.9705	0.9680	0.9684	1.0	0.9671	0.9	0.9638	0.6	98.7
Italy	(L)	2469.90	-4.99	821 - 158	2482.73	2465.00	2477.15	-3.5	2492.06	-3.6	2560.2	-3.7	69.9
Luxembourg	(LFr)	44.8557	-0.277	102 - 012	45.1420	44.7400	44.7507	2.8	44.5557	2.7	43.7707	2.4	109.9
Netherlands	(Fl)	2.4416	-0.0158	400 - 432	2.4521	2.4346	2.436	2.8	2.4247	2.8	2.379	2.8	110.1
Norway	(NKr)	9.6114	-0.0681	060 - 168	9.6950	9.5821	9.599	1.5	9.5771	1.4	9.5016	1.1	99.1
Portugal	(Es)	228.873	-1.07	721 - 024	230.123	227.980	229.413	-2.8	230.633	-3.1	-	-	95.8
Spain	(Pta)	187.672	-0.889	573 - 771	188.482	187.206	188.172	-3.2	189.112	-3.1	193.512	-3.1	81.7
Sweden	(SKr)	10.1901	-0.1115	810 - 992	10.2881	10.1543	10.1923	-0.3	10.1968	-0.3	10.2202	-0.3	86.9
Switzerland	(SFr)	1.7652	-0.0106	639 - 665	1.7729	1.7596	1.7581	4.6	1.7463	4.3	1.6933	4.1	116.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	82.3
Ecu	-	1.1813	-0.0066	804 - 921	1.1974	1.1889	1.1903	1.0	1.1888	1.0	1.1798	1.0	-
SDR†	-	1.04014	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5514	-0.0042	508 - 520	1.5583	1.5503	-	-	-	-	-	-	-
Brazil	(R$)	1.4923	-0.0056	914 - 931	1.4999	1.4911	-	-	-	-	-	-	-
Canada	(C$)	2.1001	-0.0076	990 - 011	2.1142	2.0986	2.1012	-0.8	2.1032	-0.6	2.107	-0.3	84.4
Mexico	(New Peso)	11.9900	-0.0714	473 - 327	12.0678	11.9404	-	-	-	-	-	-	-
USA	($)	1.5521	-0.0042	516 - 526	1.5591	1.5505	1.5509	0.9	1.5491	0.8	1.539	0.8	93.1
Pacific/Middle East/Africa													
Australia	(A$)	2.0922	-0.0125	908 - 936	2.1088	2.0895	2.0935	-0.7	2.0964	-0.8	2.1111	-0.9	85.2
Hong Kong	(HK$)	12.0032	-0.034	985 - 078	12.0588	11.9916	11.9997	0.3	11.9872	0.5	11.9536	0.4	-
India	(Rs)	53.8424	-0.2858	940 - 907	54.3070	53.7880	-	-	-	-	-	-	-
Israel	(Shk)	4.7520	+0.0334	465 - 575	4.7643	4.6869	-	-	-	-	-	-	-
Japan	(Y)	158.702	-0.383	574 - 831	159.260	157.300	157.842	6.5	156.047	6.7	149.002	6.1	140.2
Malaysia	(M$)	3.9279	-0.0138	259 - 299	3.9457	3.9200	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3951	-0.0087	930 - 971	2.4042	2.3887	2.401	-3.0	2.4103	-2.5	2.4359	-1.7	100.1
Philippines	(Peso)	40.7194	-0.0868	519 - 868	40.7916	40.6484	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8212	-0.0157	190 - 233	5.8471	5.8155	-	-	-	-	-	-	-
Singapore	(S$)	2.1908	-0.0083	893 - 923	2.2007	2.1883	-	-	-	-	-	-	-
South Africa	(R)	5.6609	-0.013	579 - 639	5.6884	5.6562	-	-	-	-	-	-	-
South Korea	(Won)	1195.19	-1.22	473 - 566	1200.51	1194.04	-	-	-	-	-	-	-
Taiwan	(T$)	42.3168	-0.0685	013 - 363	42.5057	42.2790	-	-	-	-	-	-	-
Thailand	(Bt)	39.0198	-0.1134	917 - 479	39.1930	38.9650	-	-	-	-	-	-	-

† Rates for Nov 16. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

FT GOLD MINES INDEX

EURO CURRENCY INTEREST RATES

LONDON RECENT ISSUES: EQUITIES

UK INTEREST RATES

LONDON MONEY RATES

BANK OF ENGLAND TREASURY BILL TENDER

BANK RETURN

BASE LENDING RATES

UK GILTS PRICES

LEGAL NOTICES

Dated this 16th day of November 1995

Messrs Macfarlanes
10 Norwich Street
London EC4A 1BD
(Ref: TJRO/537274)

Solicitors for the above-named Company

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1995 High	1995 Low	Stock	Closing price p	+or-
100	Nil	8/12	16pm	15pm	Freeport Leisure	15pm	
155	Nil	8/1	46pm	37pm	Pilkington	46pm	
535	Nil	21/11	131pm	107pm	Quality SP	122pm	+15
8	Nil	18/12	5pm	4pm	Rhino Group	5pm	
330	Nil	24/11	128pm	37pm	Superscape VR	69pm	+4
100	Nil	21/11	3pm	¼pm	Wellington U	¼pm	

pm premium.

STOCK INDICES

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[illegible]

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AIB Investment Managers (Guernsey) Ltd

[illegible]

Royal Bk of Canada G/S Fd Mgrs Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

BT Fund Managers (Ireland) Ltd

[illegible]

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

[illegible]

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mgrs

[illegible]

ISLE OF MAN (REGULATED)(**)

AXA Equity & Law Intl Fund Mgrs

[illegible]

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

[illegible]

JERSEY (REGULATED)(**)

Barclays Intl Funds

[illegible]

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (s)

[illegible]

Mercury Asset Management S.A.

[illegible]

LUXEMBOURG (REGULATED)(**)

Aetna International Umbrella Fund (s)

[illegible]

Alliance Capital

[illegible]

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PROPERTY

PROPERTY - Cont.

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RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

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FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Consolidated Coal (Extr Inds), Baronsmead VCT, Throgmorton 1000 Smlr Wts (Inv Tsts), Murray VCT, Pembertstone (Other Finl). Alpha Omikron, Greenhills, Hansom, Indpt Radio, KS Biomedix, Preston Nth End (AIM). Deletions: Dellan Lloyds (Insce), Lockheed (Amer).

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4 pm close November 17

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995 High	1995 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
19	12⅛	AAR	0.48	2.6	25	53	18⅜	18¼	18⅜	
46¼	35	AMP	0.92	2.3	20	5852	39⅞	38¾	39⅞	-½
80¼	53⅜	AMR			16	5472	69⅛	67½	69¼	+2
47⅞	36⅜	ASA x	1.71	4.4	25	839	39	38⅛	39	+¾
44¾	30¾	AbbtL	0.84	2.1	19	13017	40⅝	40⅛	40⅝	+⅜
18⅞	12	Abitibi Pr	0.40	2.5	8	2791	16½	16⅛	16⅛	-½
27⅞	21	ABM Ind	0.60	2.2	15	30	27	26½	27	+⅝
17½	13⅛	Acpincein			10	27	14¾	14¾	14¾	+⅛
37¼	21⅞	ACE Ltd	0.56	1.6	8	6035	35⅝	35⅛	35⅝	+⅜
9⅞	8⅛	ACM Gvt In x	0.90	9.4	8	175	9⅝	9½	9⅝	+⅛
7¾	6½	ACM GvOpp x	0.66	9.1		102	7⅜	7¼	7¼	
7½	5¾	ACM Gvt Se x	0.75	10.7		179	7	6⅞	7	
8¾	7¼	ACM Gvt Se x	0.90	10.4		265	u8¾	8⅝	8⅝	
9½	7⅝	ACM Man x	0.90	10.3		580	8¾	8⅝	8¾	
29¼	10¼	AcmeClv	0.48	2.1	41	127	23¼	22⅞	23	-½
38¾	7⅜	Acme Elect			64	131	8	7¾	7¾	-¼
34½	23¾	Acordia	0.72	2.6	15	51	27¾	27½	27¾	+⅛
16¾	10⅛	Acuson			35	780	11⅜	11¼	11¼	-⅛
18⅝	15⅝	Adams Expr x	0.48	2.6	0	214	18½	18¼	18½	+¼
38⅞	27⅞	AdvMic			6	7433	21¾	21	21½	-¼
9¾	5	Advest Grp	0.16	1.7	12	19	9¼	9⅛	9¼	+⅛
27½	16½	Advo Inc	0.10	0.4	19	1494	26¼	25⅛	26¼	+⅛
41¾	24.80	Aegon	1.28	3.1	15	173	41⅝	41⅜	41⅜	+⅛
5⅞	3⅛	Aerflx			8	127	4½	4⅜	4⅜	
76¼	46¾	AetnaL	2.76	3.8	35	4644	74½	73	73⅜	-1
44¾	31⅞	Aflac x	0.52	1.2	12	886	42½	41⅞	42⅜	
28⅝	16	Ahmnsn x	0.88	3.4	16	1658	26⅛	25¾	26⅛	+⅛
59½	43⅞	AirPrC	1.04	1.8	17	3982	58	58½	58	+⅝
29½	18⅜	Airbne Frt x	0.30	1.1	28	1587	28	27⅜	28	+½
30	19⅝	Airgas Inc			24	198	27⅞	27½	27⅝	-⅜
18	13⅜	Arleace	2.00	11.5	12	36	17⅜	17¼	17⅜	-⅛

Continued on next page

4 pm close November 17

NYSE COMPOSITE PRICES

1995 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
Continued from previous page										
57¼	39⅝	SBC Cm	1.65	3.1	18	6921	54¼	53½	54	
26⅞	20½	Scana Corp	1.44	5.5	16	252	26⅛	25⅞	26	
18	14½	Scecrp	1.00	5.9	10	5041	17¼	16⅞	16⅞	-⅛
11¼	6⅛	SchwkA	0.26	4.0	16	358	6⅝	6⅜	6½	-⅛
50¼	37¼	SchererRP			22	826	41⅞	41⅛	41¾	+⅝
58½	35½	SchPl	1.16	2.1	20	7743	56	54⅞	55	-⅝
69⅝	50⅛	Schlmb	1.50	2.2	25	10611	67	64⅛	66¾	+2⅞
28	11¼	Schwab(C)	0.16	0.7	25	2617	24⅝	24	24	-⅝
24⅞	11⅜	SciAtl	0.06	0.4	22	4007	16¼	15½	16¼	+⅝
20	15⅛	Scotman	0.10	0.6	10	321	16½	16⅜	16½	+¼
55⅛	39½	ScotP	0.40	0.7	15	3821	u55⅜	54⅜	55⅜	+¾
38⅞	26⅞	Scripps	0.52	1.4	25	178	37¾	37¼	37¾	+½
21½	13⅜	ScudderNAsF	0.02	0.1		86	13¾	13½	13¾	+⅛
11⅜	8⅝	ScudderNEuF x	0.16	1.5		159	10⅝	10½	10⅝	
20	13⅜	SeaCnB	0.70	3.8	2	6	18⅝	18½	18⅝	+⅛
16¾	14⅝	SeaC1.4625	1.46	9.4		7	15⅞	15½	16½	-⅜
52⅛	23⅝	S'gate			11	78302	u53⅜	51	53⅛	+2
38⅛	25⅝	Seagram	0.60	1.6	25	2510	36⅝	36⅛	36⅝	+⅛
22½	15¼	Seagull En			64	1049	19⅝	19¼	19⅜	-⅛
30⅝	18	Sealed Air			25	1489	30⅜	29¼	29⅞	-½
39⅞	30⅜	SearsR	0.92	2.3	10	8327	39⅝	39⅛	39⅜	
19¼	16⅜	SecCapSBI	1.15	6.2	21	467	18⅝	18¼	18⅝	+⅛
12⅞	10⅝	Seligm Sel x	0.84	6.9		66	12¼	12⅛	12⅛	-⅛
39¾	20	Sensormat	0.22	1.0	20	1803	23⅛	22¾	22¾	-⅛
32⅛	21⅞	SequaA	0.60	1.9	14	244	32	30⅝	32	+1⅝
...										
12⅛	6⅞	ZenithEl			5	985	8¼	8	8⅛	
34⅝	19⅞	Zenith Nat	1.00	4.5	31	16	22⅛	22	22⅛	+⅛
6⅞	6⅛	Zenix Inc x	0.72	10.9		217	6¾	6½	6⅝	+⅛
16⅞	12⅝	Zero x	0.44	2.8	16	809	16½	15⅞	16	
26	16⅞	Zurn Ind	0.40	1.7	21	384	24⅞	23¾	24	-⅝
11½	10⅛	Zweig Fund	1.12	10.2		199	11⅛	11	11	-⅛
9	7⅞	Zweig Totl x	0.84	9.9		499	8⅝	8½	8½	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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AMEX COMPOSITE PRICES

4 pm close November 17

NASDAQ NATIONAL MARKET

4 pm close November 17

FT GUIDE TO THE WEEK

MONDAY 20

EU-Israel deal to be signed

Shimon Peres, acting prime minister of Israel, attends a meeting of EU foreign ministers in Brussels to sign the long-awaited EU-Israel association agreement. Ministers will also try to strike a deal on market access for east European farm exports, and hold talks on: relations with Russia and the US, reconstruction in former Yugoslavia, and the situation in Nigeria (to Nov 21).

Gore visits Murayama

US President Bill Clinton, beset by budget problems at home, is sending Vice-President Al Gore to hold talks with Japan's Prime Minister Tomiichi Murayama in Tokyo in his stead. The two will pledge continuing support for the US-Japan security alliance in the wake of the recent upsurge of Japanese public resentment of US troops in Japan.

EU media compromise likely

France is expected to give up its fight for tougher controls on European broadcasting when culture ministers meet in Brussels. The Spanish presidency of the EU has proposed a compromise on television quotas that largely reverts to the existing regime of 51 per cent European content "wherever possible". The proposal tightens up some of the old 1989 broadcasting law's ambiguities and is expected to get the support of a qualified majority of member states.

Chernobyl health review

Some 600 health specialists and policy-makers meet in Geneva (to Nov 23) to review the health consequences of the world's worst-ever nuclear accident at Chernobyl in Ukraine in April 1986. Some 5m people were exposed to fallout, with health effects that include a huge rise in thyroid cancer in children.

Greek president in Bulgaria

Greece's President Costis Stefanopoulos makes his first official visit to Bulgaria. He is expected to try to smooth out a dispute over the Greek-Bulgarian plan to build an oil pipeline between the Black Sea and the Aegean.

Ferry safety to be discussed

The International Maritime Organisation, the London-based United Nations body responsible for ship safety, meets to consider measures to improve the safety of roll on/roll off ferries (to Nov 29). It will consider a series of proposals to improve their stability in rough seas when there is a risk of water collecting on the car deck. Its deliberations were prompted by the sinking of the Estonia in the Baltic Sea in September 1994 when 900 lives were lost.

Saleroom: Nureyev

The contents of Rudolf Nureyev's Paris apartment are to be auctioned at Christie's in London today and tomorrow. Well over £2m ($3.16m) should be raised from an eclectic collection, which ranges from the dancer's shoes to the paintings of male nudes which adorned his walls. Among the highlights is a nude by Géricault estimated at up to £60,000 ($94,800). There are also many of Nureyev's working costumes, textiles and furnishings.

Greece's Prime Minister Andreas Papandreou faces pressure from his party (Pasok) to step down amid concern over his wife's influence

Crown of the Andes

The so-called "Crown of the Andes" (detail left) comes under the hammer at Christie's in New York tonight. The crown was originally part of the treasury of the cathedral of Popayan in what is now Colombia, and probably dates back to the 16th century, although with later amendments. It contains almost 5lb of gold encrusted with 450 local emeralds. The crown was sold to the US in the 1930s and subsequently toured the country. The Colombian government is the most likely bidder: the estimate is $3m-$5m.

Tennis

ATP world doubles championships, Jakarta, Indonesia (to Nov 26).

FT Surveys

Norway and China.

Holidays

Belize, Mexico.

TUESDAY 21

Opec meets in Vienna

Opec ministers meet in Vienna to set production quotas for the next six months. Crude oil prices have rallied in the past few days because of the row over the Nigerian executions and the bomb blast in Riyadh. But with non-Opec production strong, the underlying market trends do not favour the oil cartel, and ministers are expected to roll over their existing quotas.

Fab four ride again

The first volume of The Beatles Anthology is released on the Parlophone label: 60 tracks including unreleased songs, radio and TV sessions and alternative versions of the group's early hits. Attention is bound to focus on the single, "Free As a Bird", featuring the late John Lennon's vocals and an accompaniment by the surviving three Beatles – the group's first new release for 25 years.

FT Surveys

South Africa and Hungary.

WEDNESDAY 22

Peres to present government

Israeli acting prime minister Shimon Peres is expected to present his government formed in the wake of the assassination of prime minister Yitzhak Rabin. Mr Peres is expected to award senior positions to Ehud Barak, interior minister, and Haim Ramon, the head of the Histadrut trades union federation.

EU economic reports due

The European Commission unveils economic forecasts for the EU member states for 1996 and 1997. Performance in these two years will be the basis for judging whether countries' meet the Maastricht criteria for monetary union.

Anti-land mine campaign

The Geneva-based International Committee of the Red Cross is launching a world-wide media campaign to mobilise public support for the abolition of anti-personnel landmines. A review of the 1980 UN inhumane weapons convention last month failed to agree a ban, and the ICRC fears meetings planned for early next year will be equally inconclusive. Landmines kill or maim more than 2,000 people every month.

Turkish-German talks in Bonn

Deniz Baykal, Turkey's foreign minister, holds talks with Klaus Kinkel, his German counterpart. High on the agenda are bilateral relations, including trade, and the status of the 2m Turks living in Germany who are completely disenfranchised.

Immediately after the meeting, senior officials from Britain, Spain, France and Italy will meet Mr Baykal with the aim of intensifying political dialogue. Human rights and Ankara's request for greater access to the European Union markets are also on the agenda.

Future of Lomé considered

The future of one of the world's more comprehensive trade agreements will be debated at the Seventh European-Caribbean Conference in Trinidad (to Nov 23). The Lomé Convention, the trade pact between the European Union and 70 developing countries, expires in 2000.

It is unlikely to be continued, depriving the developing countries of guaranteed markets for commodity exports, such as bananas and sugar, and significant aid from the EU.

Export awards ceremony

The finals for a UK export excellence award jointly sponsored by National Westminster Bank, the FT Exporter publication, and the Institute of Export is held at the Institute of Civil Engineers, London. Michael Heseltine, the deputy prime minister, will present the award to one of six finalists at a lunch.

FT Survey

Czech Republic.

Holidays

Germany (some states), Lebanon.

THURSDAY 23

Boost for EU internal market

Ministers responsible for the European Union's single market meet in Brussels to discuss ways of making the internal market more relevant to Europe's citizens. In keeping with this spirit, they will hold the debate in public.

Ministers want to show Euro-citizens what their rights are, and to get feed-back on the barrier-free market's bottle-necks.

The ministers should also reach agreement on a proposal to track abuses of the single market by systematically recording examples of where member states block goods or services from another.

Arafat receives prize

Chancellor Helmut Kohl awards the German media prize to Yassir Arafat, chairman of the Palestinian Liberation Organisation, and posthumously to Yitzak Rabin, the assassinated Israeli prime minister, at Baden-Baden, south-west Germany.

On Friday, Klaus Kinkel, Germany's foreign minister, will hold talks in Bonn with Mr Arafat. Germany is keen to play a role in the economic reconstruction in the middle east.

FT Surveys

Merseyside and East Midlands Business Property.

Holidays

Japan and the US celebrate Thanksgiving. Georgia.

FRIDAY 24

Ireland votes on divorce

Catholic Ireland votes in a referendum on whether to lift a 58 year old constitutional ban on divorce.

The government, which has publicly called for a Yes vote, hopes to avoid a repeat of the referendum result in 1986 which turned out 2:1 against allowing divorce, and shake off the country's priest-ridden image, as the only member of the European Union which prohibits re-marriage.

Big strike planned in France

French trades unions have called a 24-hour strike for the country's 5m civil servants in protest against government plans to reform the pensions system for public sector workers. The action, which coincides with a general strike call by the communist-led CGT, is part of a series of planned protests against the welfare reforms outlined last week by Alain Juppé, the Gaullist prime minister. So far, however, unions have failed to present a united front against the reform proposals.

Cycling

World indoor championships, Epinal, France (to Nov 26).

Mastering Management

The fifth of the FT's 20-part series appears in the UK edition. Non-UK readers can take out a subscription. Contact: PO Box 384, Sutton, Surrey, SM1 4XE, UK. Tel: +44 181 770 9772, Fax: +44 181 643 7330.

SATURDAY 25

Papandreou's future in doubt

Greece's governing Panhellenic Socialist Movement (Pasok) begins a two-day central committee meeting. Dissident factions in the party will try to force ailing Prime Minister Andreas Papandreou to set a timetable for stepping down and choosing a new party leader.

Pasok members may also question the role of Dimitra Papandreou, the prime minister's wife, who is accused of wielding too much influence.

Horse racing

Hennessy Cognac Gold Cup, Newbury racecourse, England.

SUNDAY 26

Côte d'Ivoire elections

The west African state holds parliamentary elections. New electoral laws have disenfranchised many of the population, including Alassane Ouattara, the main rival to the ruling PDCI (Partie Democratique de Côte d'Ivoire) led by the incumbent Henri Konan-Bedie.

As a result the opposition boycotted the recent presidential poll, which was marred by widespread protests and violence in which several people died.

The opposition has agreed to take part in the parliamentary polls and formed a coalition Republican Front which is already split.

Horse racing

Japan Cup, Tokyo.

Compiled by Patrick Stiles.
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: A second estimate of UK gross domestic product in the third quarter of the year is expected to confirm that output grew by 0.5 per cent in the three months to September. Provisional UK M4 money supply is expected to have grown at an annual rate of 8.4 per cent last month.

Tuesday: Most economists think French manufacturing production grew more slowly in September than it did in August. The UK's visible trade gap with countries outside the European Union is thought to have widened last month after narrowing in September.

Wednesday: The Netherlands' gross domestic product is thought to have expanded by 3.6 per cent in the year to the third quarter. Canadian consumer prices are expected to have risen slightly last month.

Thursday: Swedish retail sales are expected to have risen more quickly in September than they did in August. Most economists expect Spain's unemployment rate to have fallen only slightly in the third quarter of the year.

Friday: The Confederation of British Industry is expected to deliver a further subdued picture of the UK's manufacturing sector.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Nov wh'sale price indx, 1st 10 days	-	-0.1%
Nov 20	UK	3rd qtr gross domestic product***	0.5%	0.5%
	UK	3rd qtr gross domestic product**	2.4%	2.4%
	UK	Oct M4*	0.2%	0.4%
	UK	Oct M4**	8.4%	8.2%
	UK	Oct M4 lending	£3.0bn	£4.1bn
	UK	Oct bdg s'ties net new commit's	£2.6bn	£2.6bn
	Italy	Sep producer price indx**	8.8%	9.0%
	Italy	Sep wholesale price indx**	10.7%	10.8%
	Canada	Oct department store sales**	5.3%	10.0%
Tues	US	Sep trade: goods & services**	-$9.9bn	-$8.8bn
Nov 21	US	Sep goods/services export (BoP)**	$65.4bn	$65.7bn
	US	Sep goods/services import (BoP)**	$75.4bn	$74.6bn
	US	Johnson Redbook w/e end'g Nov 18	-	2.2%
	Japan	Sep overall pers consum expend**	-0.4%	-0.3%
	Japan	Sep pers consumer exp. workers**	-	-0.5%
	Japan	Sep income, workers**	-	3.0
	Japan	Sep mach'y ord ex-power/ships*	0.3%	-3.9%
	Japan	Sep mach'y ord ex-power/ships**	2.9%	2.4%
	France	Sep industrial production*†	-0.2%	0.2%
	France	Sep manufacturing production*	0.2%	0.8%
	UK	Oct trade balance ex-EC	-£800m	-£696m
	Italy	Nov cities consumer price indx*	0.3%	0.6%
	Canada	Sep merchandise exports*†	0.7%	9.6%
	Canada	Sep merchandise imports*†	2.2%	3.5%

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Wed	US	Initial claims w/e Nov 18**	365,000	365,000
Nov 22	US	State benefits w/e Nov 11**	-	-
	US	Nov Michigan sentiment final	-	90.7
	US	Oct Treasury budget	-$29.0bn	$7.3bn
	Japan	Sept coincident indx	30.0%	40.0%
	Japan	Sept leading diffusion indx	36.4%	30.0%
	France	Oct consumer price indx final*	0.1%	0.15%
	France	Oct consumer price indx final**	1.8%	1.85%
	Canada	Oct consumer price indx, all items*	0.1%	0.1%
Thurs	Japan	Nov trade balance, 1st 10 days	-	$1.9bn
Nov 23	Spain	3rd qtr qtly unemployment rate	22.4%	22.7%
	Aus'lia	Oct motor vehicle registrations	1.5%	0.7%
Fri	US	M2 w/e Nov 13	$1.8bn	$0.8bn
Nov 24	France	Sep trade balance†	FFr8.2bn	FFr9.0bn
	France	Oct household consumption*†	-0.2%	0.1%
During the week...				
	Germany	Oct M3 from 4th qtr '94 base	1.9%	1.5%
	Germany	Oct priv lend'g 6-monthly ann'sed	7.7%	8.0%
	Germany	Oct producer price indx, West*	0.0%	0.1%
	Germany	Oct PPI, pan-Germany*	0.0%	0.1%
	Germany	Oct PPI, pan-Germany	1.7%	1.9%
	Germany	Oct wholesale price indx, West*	-0.1%	0.4%
	Germany	Oct Icon consumer climate	-	89.0
	Germany	Oct import prices*	-0.2%	0.1%

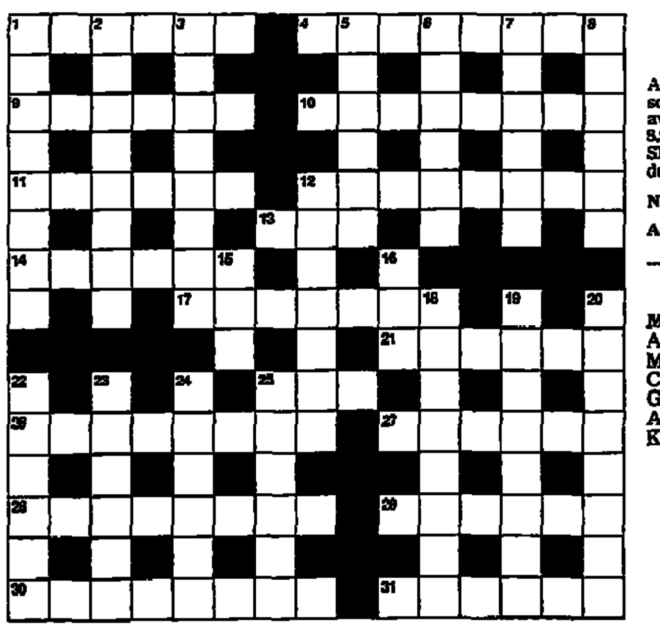
*month on month, **year on year, ***qtr on qtr, †seas adj *Statistics, courtesy MMS International.*

ACROSS

1 Tax being cut (6)
4 Lugs around currency reserves (8)
9 Put in charge again (6)
10 Mounting disorder (8)
11 Resident is at home having tea (6)
12 Attention paid to profit (8)
13 Money centre unit (3)
14 Drain a beer-mug finally and pass out (6)
17 A seed is treated for blight (7)
21 The interest of shareholders is fair play (6)
25 Catch or catch on (3)
26 General resemblance to Humpty Dumpty? (3-5)
27 Means of raising a pound for a villainous fellow (6)
28 Weapons not used at the front? (4,4)
29 Girl seen on motorway during middle morning (6)
30 Do without and give to others (8)
31 Dash inside the chain-store (6)

DOWN

1 Grannies making money (8)
2 A strike in the UK's financial centre? Catastrophe! (8)
3 Caused alarm to go off in the van (8)
5 Type of plant that can grow very high (6)
6 No one scores off this girl (6)
7 Highly bred? (6)
8 Things seen on guns (6)
12 Surely an entry is cross-referenced? (7)
15 Pull leg around chest (3)
16 Employ American middlemen (3)
18 Communist aim – end of private property? (8)
19 It is difficult being so sensitive (8)
20 Cancel my order for plant (8)
22 Decided against a bid in spades, perhaps (6)
23 They cut dashing figures (6)
24 To raise in price and cause a revolution! (6)
25 Legendary banking characters of Zurich? (6)



MONDAY PRIZE CROSSWORD
No.8,923 Set by DANTE

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday November 30, marked Monday Crossword 8,923 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday December 4. Please allow 28 days for delivery of prizes.

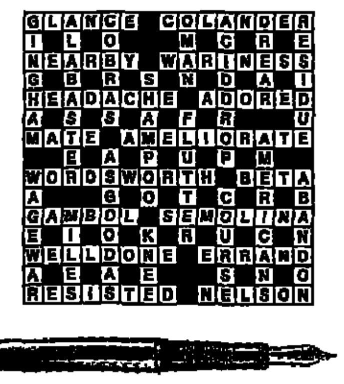
Name...

Address...

Winners 8,911

Mrs C. Williams, London E17
A.M.D. Gleeson, Peterborough
Mary Russell, Comberton, Cambs
G.M. Juliff, Andover, Hants
A.R. Neale, Bahrain
Karen Bailey, London E3

Solution 8,911



JOTTER PAD

هكذا من الاصل

هكذا من الاصل

BUSINESS EDUCATION

The universities of Oxford and Cambridge are ready to challenge established business courses

New masters for old schools

The use of converted hospital buildings – lavishly restored Addenbrooke's in Cambridge and a section of the Radcliffe Infirmary in Oxford – is not the only similarity when it comes to management education at Oxbridge. Both these ancient universities were late into the business school game, but both are making up for lost time and putting themselves on the international map.

Management studies began at Cambridge in 1954 within the department of engineering. The management studies tripos was introduced in 1986, enabling undergraduates from any discipline to devote the final year of their degree course to the study of management, and four years later an Institute of Management Studies was created.

The aim of the institute – quickly renamed the Judge Institute in recognition of an £8m ($12.5m) benefaction from the businessman Paul Judge and his wife Anne – is to act as a focus for management education and research, and to bring together related work in other departments of the university.

Important developments this year have been the move from a variety of premises around Cambridge to the institute's permanent home in Old Addenbrooke's (designed by the architect John Outram) and the appointment of Sandra Dawson as the institute's full-time director. Previously professor of organisational behaviour and deputy director of the management school at Imperial College, London, Dawson is the first woman to hold the top post at a European business school.

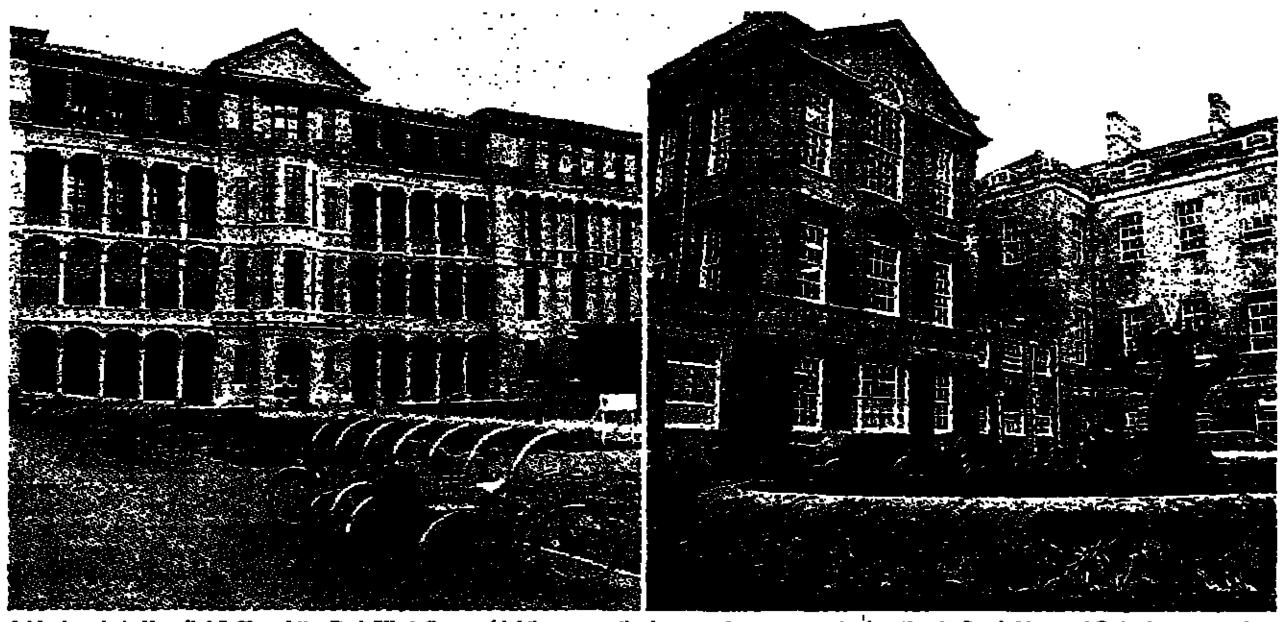
Cambridge has a one-year MPhil in management studies and one of the largest PhD programmes in Europe. But what catches the eye is the MBA.

An innovative departure from the standard European and North American one- and two-year full-time MBA courses, it involves three terms of full-time study and one year of practical work experience and work-based assignments. John Hendry, the programme's director, acknowledges that this structure puts unusual demands on student and employer alike, but insists that "the learning benefits" for those prepared to put in the work are enormous. "It's a question of motivation. People come here to be seriously better managers, not just to get the letters MBA after their name."

This year's intake is 46 students with an average age of 28. The plan is to build up to 60 MBA students in two streams. The core teaching and research staff of 41 reflects the Judge's development from a small, engineering-focused institution to one which is now more broadly based and (by British standards) medium-sized.

By the end of the century, however, the institute aims to be one of the top international schools. It has impressive backers – Simon Sainsbury's Monument Trust also made a substantial donation towards the redevelopment of Addenbrooke's, and professorships endowed by Guinness and KPMG are among the school's other corporate links. A small portfolio of executive education courses aimed at senior managers will be launched within a couple of years.

Tim Dickson



Addenbrooke's Hospital (left) and the Radcliffe Infirmary (right) are now the homes of management education in Cambridge and Oxford respectively

The University of Oxford, renowned for its academic aloofness, is being forced into the business world of the 1990s. On October 1 next year, the first 40 students will walk into the university to study for a master of administration (MBA) degree.

While many in the business community – particularly rival business schools – deride the Oxford course as being long in gestation and short in innovative content, some of the established academics at the university oppose the course because they still do not see management education as a "proper subject", says Anthony Hopwood, MBA director of the Oxford University School of Management Studies. Lodged between the the opposing factions, Hopwood believes he has a very marketable product.

Unlike many other business schools, the school of management studies can draw on the huge academic knowledge of the whole university. Which other business school, he asks, can draw on such high levels of expertise in subjects as diverse as Japanology, international relations or science?

Hopwood compares Oxford with the University of Chicago, a high-calibre university with a high-calibre graduate school of business. "Chicago explodes the notion that you can either be academic or you can be relevant," he says. He also believes Oxford can trade on its name. "We've got a good brand name and its just an incredibly pleasant place to be."

Hopwood, who joined the Oxford school from the London School of Economics, has defined a very clear role for the Oxford MBA in the hierarchy of management courses. While Cambridge's Judge Institute has set out its stall to be an international business school – another London Business School (LBS) or Insead – Hopwood has a different, though equally ambitious, long-term strategy. "Over the next 20 to 30 years we would like to train Britain's business elite, the top core of British managers. At Oxford we'd like to think we could have a go at doing that."

To achieve this, Hopwood intends to fill 40 per cent of his classes with students from the UK – compared with, say, 20 to 25 per cent at LBS. The students will also be younger, perhaps 24 or 25 years of age, with a good first degree and several years' relevant business experience.

Entry qualifications are high, but Hopwood believes that has to be the case. "At Oxford we can't take students who are poor academically," he says. "The control procedures won't allow that. I have the notion of an intelligent MBA in an intelligent business school."

There has been considerable student interest in the course, which will run from October to September, with three 10-week courses and a summer placement.

Student interest secured, Hopwood still needs to engender more financial interest. There will be 40 students on the course next year and 80 studying in 1997-98, but that number will remain static until the school can afford a new building. Fundraising is now well under way for the £20m needed for a city centre building plus a further £20m needed for endowed posts.

Della Bradshaw

CONFERENCES & EXHIBITIONS

NOVEMBER 21-23
Railtex 95
The International trade exhibition of equipment and services for passenger and freight railways will attract senior engineers and buyers from the rail industry across the world. The event will be opened by the Secretary of State for Transport at the Wembley Exhibition Centre, London, and will include displays by 420 companies from 16 countries. Admission details on 01707 275641, and information on associated Institution of Civil Engineers seminars from conference office on
Tel: 0171 839 9805 **LONDON**

NOVEMBER 27 - 29
Auditing the Dealing room (Understanding the Treasury Function)
Three day training course designed specifically for internal auditors and bank inspectors charged with examining the on-going activities of their institution's Treasury operation, covering cash markets and derivative products dealing limits and management controls. £690 + VAT.
Lywood David International Ltd.
Tel: UK 44 (0) 1959 565820
Fax: UK 44 (0) 1959 565821 **LONDON**

NOVEMBER 30
Do the Right Thing, a Practical Guide to Employment Problems
A morning seminar with lunch dealing with all aspects of underperforming employees from monitoring performance, redundancy and dismissal procedures through to taxation payments on termination and an inside view from the Chairman of an Industrial Tribunal. Comprehensive course notes supplied. Course Fee £23.50.
Contact Juliet Moss, Hughes Allen Chartered Accountants
Tel: 0171 583 7575 Fax: 0171 583 2081 **LONDON**

NOVEMBER 30 - 1 DECEMBER
Marketing to Win Clients
For managers wishing to increase their client based sales and profits using a variety of marketing techniques in the financial industry. • Understanding your clients' needs • Marketing targeted at client needs • Researching your market • Key elements of marketing • Selecting marketing techniques • Developing your marketing plan.
Contact: Hilary Jackson - BPP Bank Training
Tel: 0171 628 8444 Fax: 0171 628 7818 **LONDON**

DECEMBER 1
United Arab Emirates: The Challenge for Business Development
The CBI in association with FCO and DTI have organised this high level conference to address all aspects future business development of UAE. Eminent UAE and UK speakers will cover opportunities for UK trade and investment. Keynote address: Rt Hon Ian Lang, President of the Board of Trade.
Contact: Leeann Hawkins
Tel: 0171 379 7400 ext 2262
Fax: 0171 497 3646 **LONDON**

DECEMBER 4 & 5
GO INTERNET
Is a two day comprehensive programme providing a practical insight into the Internet and what it can offer business. Aimed at Managers, Professionals and Decision Makers in the service industries, manufacturing and commerce. All major topics and and issues will be presented and discussed by the Internet Industry's top experts.
CONTACT:
Business Communications International
Tel +44 (0) 171 573 5077
Fax +44 (0) 171 405 4957
http://www.britain.eu.net/go/ **LONDON**

DECEMBER 4 & 5
The Changing Politics of International Energy Investment
The 1995 Chatham House annual energy conference will look at the forces driving international energy investment. The second day will feature case studies covering power, pipeline and transport, production, and sunrise industries projects around the world.
Contact: Royal Institute of International Affairs Tel: (+44) 171-957 5700x298, Fax (+44) 171-321 2045/957 5710 **LONDON**

DECEMBER 5
Sportsmen, Entertainers and Authors: Taxation and Legal Issues
Sports, entertainment and the arts provide lawyers, accountants and tax advisers with unusual challenges. This conference will explore these challenges from a tax perspective. Topics include an analysis of the commercial rights of performers, taxation of those rights, commercial vehicles and structures.
Contact: ESC International
Tel: 0171 386 9322 **LONDON**

DECEMBER 5 & 6
FT World Telecommunications
The World Telecommunications Conference organised annually by FT Conferences is the leading high level telecommunications strategy event, with speakers and participants drawn from all over the world. This year the focus will be on the first and second waves of competition to the traditional players, and the competition yet to come as a result of the commercial and technological convergence between media and content, and telecommunications and carriage.
Enquiries: FT Conferences
Tel: 0171 814 9770
Fax: 0171 8733975/3969 **LONDON**

DECEMBER 5-6
Pay, Reward and Performance Management: New compensation and motivation strategies for the flatter organisation
Delayering, downsizing and re-engineering have led to flatter, team-based organisations. Pay and appraisal systems must change to reflect this new reality. it presents practical strategies for designing and implementing these systems to meet current business objectives.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020 ***LONDON***

DECEMBER 6
Planning for Uncertainty
Despite three years of economic recovery we are entering a period of uncertainty. Will the UK economy slow or are we poised for a consumer boom? Can Labour finally win and what difference would it make? These questions and more will be tackled at our forthcoming conference.
Cost: £375 + VAT
Contact: Anna Harman at
The Henley Centre Tel: 0171 353 9961
HENLEY CENTRE CONFERENCE

DECEMBER 6
The Electromagnetic Compatibility Directive
One day seminar to on the processing and packaging machinery sector Code of Practice. Copies free to all delegates - organised by PPMA at West Bromwich Moat House, Birmingham. For brochure and registration form contact Beryl Nasséa on 0181 681 8226 or fax 0181 681 1641. **LONDON**

DECEMBER 7-8
Corporate Treasury Risk Management
Intensive 2-day workshop designed for treasury personnel from both banks and corporates, as well as dealing staff who require a better grounding in treasury products and their uses.
Case studies, Practical Exercises.
Limited delegate numbers.
Contact: BRI Financial Training
Tel: 44171 637 4383 Fax: 44 171 636 2330 **LONDON**

DECEMBER 7 & 8
Currency Derivatives
Valuable for dealers and more sophisticated customers using the currency markets for hedging and speculation. Delegates should be familiar with basic terminology • Trading in currency futures • Option trading strategies and hybrid products • Option valuation and risk profiles • Synthetic agreements for forward FX • Currency swaps.
Contact: Jonathon Rogers - BPP Bank Training
Tel: 0171 628 8444 Fax: 0171 628 7818 **LONDON**

DECEMBER 7 & 8
Tariffing and Marketing ATM
The first ever conference to critically examine issues of vital importance in delivering effective tariffing and marketing strategies in the development of Asynchronous Transfer Mode. Viewpoints from industry experts and direct user experiences offer a major opportunity to obtain an international perspective of key pricing and marketing issues.
Enquiries: Tarifica Conferences
Tel: +44 (0) 1438 742 424
Fax: +44 (0) 1438 355 475 **LONDON**

DECEMBER 7 & 8
The Essentials of Options
This two-day seminar provides an introduction to the theory and application of options including • Definitions • Theory • Option Sensitivities • Simple Trading Strategies • Warrants & Convertibles • American, Exotic, Interest Rate and Embedded Options • New Asset Classes • Analysis of other structured products.
Contact: Nadia Pini, IFR Publishing
Tel: 0171 369 7522 Fax: 0171 369 7397 **LONDON**

DECEMBER 8-10
Master the Leading Edge!
For the first time ever, Robert Dilts, leading pioneer in NLP modelling, presents his powerful and unique 3 day experimental training programme. Five years of research sponsored by international companies including FIAT and Disney. A 150 page fully engineered manual with previously unpublished research. Cost £300 + VAT. Discounts for groups from one organisation.
Contact: Pace Personal Development and Business Training
Tel: 0171 794 0960 Fax: 0171 794 7366 **LONDON**

DECEMBER 12 & 13
FT World Pulp and Paper
This year's conference will look at the future of these industries now that they have come out of recession in such a spectacular fashion. In addition to considering issues such as supply and demand and new market structures, we will be looking at the longer-term implications of scientific developments such as biotechnology and new sources of fibre.
Enquiries: Financial Times
Tel: 0181 673 9000 Fax: 0181 673 1335 **LONDON**

DECEMBER 12/13
Introduction to Foreign Exchange and Money Markets
Highly participative training course covering traditional FX and money markets featuring WINDEAL a realistic PC based dealing simulation. For Corporate treasurers, bank dealers, marketing executives, financial controllers, systems and support personnel £520.00 + VAT.
Contact: Lywood David International Ltd
Tel: UK 44 (0) 1959 565820
Fax: UK 44 (0) 1959 565821 **LONDON**

DECEMBER 13
Second Trade Finance Conference: Pitfalls, Procedures and Practice
This intensive one-day trade finance conference focuses on structured financing techniques, the impact of the new ICC Uniform Rules for Collection and Bank-to-Bank Reimbursements, UCP 500, and fraud in documentary credit transactions. Chaired by John Turnbull, SBC Warburg.
Contact: Jeanne Bester, ESC International Ltd
Tel: 44 (0) 171 386 9522 **LONDON**

DECEMBER 14 - 15
Managing Major Client Relationships
Aimed at professionals who manage key accounts and are interested in building stronger relationships through strategic business planning and relationship building skills. • Overview of the sales cycle • Developing a strategic account plan • Confrontation and negotiation skills • Executive presentations • Differentiating yourself from the competition.
Contact: Hilary Jackson - BPP Bank Training
Tel: 0171 628 8444 Fax: 0171 628 7818 **LONDON**

DECEMBER 18 & 19
Tomorrow's Infrastructure Managing the Challenge
The APM British Project Management Colloquium will focus on managing the delivery of tomorrow's infrastructure from the Client's, Project Manager's and Contractor's viewpoint both in the UK and overseas.
For further information please contact: Marie Bryant, The APM Group Limited.
Tel: 01494 452450 **RUGBY**

JANUARY 5
Technical Report Writing Skills
To succeed in banking, you need reports that show a clear and thorough understanding and offer reasoned, well argued and presented recommendations. • Identify Objectives/Key Issues • Assembling Information - SWOT Analysis • Targeting your Audience, Influencing, Anticipating Objections • Format, Style, Layout, Clarity, Impact • Writing vs Editing. 1 Day £220.
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853 **LONDON**

JANUARY 8 & 9
Selling Banking Products
In today's competitive and complex environment, bankers need sound selling skills to gain and retain business and increase fee income. • Planning and Developing a Sales Initiative • Needs Analysis/Product Knowledge • Presentations, Telephone Techniques, Body Language • Negotiating - Handling Objections • Closing the Sale • Relationship Management. 2 Days £595
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853 **LONDON**

JANUARY 15 - 16
Evaluating Banks
A course for Analysts responsible for assessing Bank Risk. Review of the regulatory environment and the role of supervisors and the analysis of Bank's financial statements. • Banking Supervision and Regulation • Financial Information • Political, Economic, Social Technological Risks • Country Risk Exposure Analysis • The Role of Credit Agencies • Case Studies on Banking Failures. 2 Days £595.
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853 **LONDON**

JANUARY 18 & 19
Introduction to Swaps
The 'Swap' now permeates many financial transactions. Understanding the mechanism of this instrument is essential to all corporate bankers, treasurers and financial advisers such as lawyers and accountants. This course will also be relevant to back office staff, bank auditors and IT system analysts, as well as trainee dealers. • History and Development of the Swap Market • Mechanics of the Basic Swap • Interest Rate and Currency Swaps, Swap Maths. 2 Days £595.
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853 **LONDON**

JANUARY 18 & 19
Team Leadership Skills
Interactive Leadership Skills Training, using case studies and role plays. • What is it like to Lead - Making the Transition • Groups and Teams - How they Work and Why They D'ont • Listening, Communication, Feedback • Delegation and Motivation • Discipline and Confrontation • Prioritizing, Problem Solving, Handling Change. 2 Days £440
Contact: Fairplace
Tel: 0171 329 0595 Fax: 0171 329 3853 **LONDON**

FEBRUARY 19
FT London Motor Conference
This twelfth FT Conference will consider how the European motor industry is preparing for the 21st century. Developments in multi-franchising, opportunities in the European aftermarket and the impact on the sector of innovation in IT will be among the topics to be discussed.
Enquires: FT Conferences
Tel: 0171 814 9770
Fax: 0171 873 3975/3969 **LONDON**

FEBRUARY 19 - 22
Global Information Access
A multi-event series covering the convergence of communications, computing and multimedia technologies, highlighting the increasing importance of global information access in everyday business practice. Expert speakers present leading edge developments and new; end users discuss their experience of applying these technologies to competitive advantage.
Contact UNICOM Seminars
Tel: 01895 256 484, Fax: 01895 813 095 **LONDON**

FEBRUARY 22
The Law of the Internet
Commerce on the Internet: can you afford to ignore the risks, threats and legal implications? This seminar by UNICOM is co-organised by specialist IT law firm Bird & Bird, and chaired by Chris Reed of the QMW IT Law unit. It features expert presentations, and a debate between the ITC and OFTEL on regulating the Internet.
Contact UNICOM Seminars
Tel: 01895 256 484, Fax: 01895 813 095 **LONDON**

FEBRUARY 29 - MARCH 1
Compliance and Regulation
An indepth look at regulation for all involved with compliance and investment business activity. UK and EC policies and regulatory framework, bank regulation, money laundering, capital adequacy, companies and directors' responsibilities, creative accounting, misuse and abuse.
Contact: Ross Tanner - BPP Bank Training
Tel: 0171 628 8444 Fax: 0171 628 7818 **LONDON**

FEBRUARY 29 - *MARCH 1*
WILL ISD DELIVER? Barriers to Business in the Single European Equity Market
Organised in association with The European Capital Markets Institute, this conference will review the recent EU directive and its potential impact on European capital markets.
Contact: Royal Institute of International Affairs Tel: (+44) 171-957 5700x298, Fax: (+44) 171-321 2045/957 5710. **LONDON**

MARCH 13 & 14 1996
European Monetary Union
EMU is one of the important issues of our time. The conference will give a balanced view of the economic and political issues involved and the implications for the business community.
Contact: Royal Institute of International Affairs Tel: (+44) 171-957 5700 x298, Fax (+44) 171-321 2045/957 5710 **LONDON**

INTERNATIONAL

NOVEMBER 28-29
The Teleshopping Explosion: Teleshopping Programming in Asia
NIMA International, in conjunction with MIP Asia, presents its second annual Asian Teleshopping Conference on the dynamically evolving industry of electronic retailing.
Contact: Vivien Wallace, Lippin Wallace
Tel: 0171-630 9977 Fax: 0171-630 9806
Grand Hyatt, HONG KONG

DECEMBER 8
Incentives and Prospects for Investments in the New Poland
Now in its fourth year of significant growth, the Polish economy is surging ahead of many other Eastern and Central European countries. The Governor of Poland's Central Bank and a distinguished panel will examine the foundations, performance and outlook of the Polish economy, as well as the risks and opportunities awaiting foreign investors.
Contact: ADAM SMITH SEMINARS
Tel: (33-1) 43.06.79.42
Fax: (33-1) 45.67.88.37 **PARIS**

JULY 22 - 26
Spetzavtotransport - 96
Special-Purpose Motor Vehicles
AVTOSERVIS - 96
Automobile Repair and Maintenance
The two exhibitions will take place in Russia's largest modern fairgrounds 'Krasnaya Presnya', Moscow, and will be organised by 'Expocentr, ZAO'. For details please contact
Fax: 007 095/205 60 55 Tel: 255 37 32 **MOSCOW**

SPORT/ ARCHITECTURE

Dubai: how the Maktoums' racing jigsaw fits together

SPORT

KEITH WHEATLEY

I wonder if I should have taken my shoes off at the door of the barn, so sepulchral is the atmosphere. Some of the world's most expensive racehorses stare attentively at the comings and goings. Classic Cliché, says one nameplate. Another: Moonshell. Lammtarra, this season's unbeaten winner of the English Derby and of the Prix de l'Arc de Triomphe, was here last winter.

"From morning feed to late afternoon, nothing is allowed to disturb their rest. No noise, no sudden movement. If the gardener turns up to mow the lawn we tell him to come back later," explains Simon Crisford, who is racing manager to Sheikh Mohammed bin Rashid Al-Maktoum. Outside, there is infinitely more sand than grass, for we are in Dubai, headquarters of Godolphin, the racing company with which Sheikh Mohammed, a member of Dubai's ruling family, is revolutionising the sport of thoroughbred racing.

In Britain, trainers who had become used to the year-round drip of Maktoum money wail and write anguished letters to the racing papers because of Godolphin's success. Because Sheikh Mohammed wants to train some of his priceless animals personally and has been removing some of them from frosty Newmarket and foggy Lambourn to his own Arabian back yard each winter, he has naturally attracted a few grumbles.

Since few have been privileged to visit the Al Quoz racing stables in Dubai, rumours of bizarre and complex training methods abound. But Crisford only laughs. "We don't go in for many gadgets," explains Sheikh Mohammed's racing manager. He follows my glance to the azure blue 80-metre stretch of water that is an equine swimming pool. Most British yards run only to a small circular pool in which horses develop a bias to left or right as they follow the curve of the wall.

"The pool is only a training aid for conditioning if they pick up a hoof or leg problem. We don't even use it that much, says Crisford, anticipating my thoughts. "It's back to basics here, and very simple training methods."

If genius is the infinite capacity for taking pains, then Sheikh Mohammed is right up there with Leonardo and Albert. Of the 70 horses shipped to Dubai each November by Godolphin, each has been personally selected by its owner for a conditioning and training regime that is planned individually for each animal.

Some may be precocious, others backward. Some are two-year-olds yet to race, whilst the top animals (already winners in Europe) may be destined for lightning commando raids on big races in Japan, Hong Kong or California, where they will win millions.

According to Crisford, the Godolphin regime is a complex jigsaw in which hundreds of factors interact. Diet is one. The feedstore holds hay from Washington, alfafa from Australia, yet is only a small chilled room. When food is flown in daily, you do not need much storage space.

Climate is important. The chosen thoroughbreds are flown to Dubai after a hard season in Europe, just as the autumn weather is getting chilly, and are lodged for six months in a land where a steady 25°C or so of sunshine warms tired bones and muscles.

Respiratory complaints are altogether fewer and the horses train to a thoroughly regular schedule on the nine-furlong private oval adjoining the stables, where a team of workmen do nothing but tend and groom the sand surface.

English Derby winner Lammtarra benefited from his winter in Dubai

Labour is an issue here. Pakistani grooms and stable lads at Al Quoz work with a zeal that only the Gulf's immigrant workers can produce. "In the UK the only reason that horses break training to stay in their stables on Sundays is because the staff want a day off," explains Crisford, who is at his desk to meet me early on a Friday, the Arab world's sacred day of leisure.

"We can have consistent conditions, day in and day out. No breaks for frost or torrential rain. I can't emphasise how much that does for soundness in a horse.

"Other trainers don't have access to the resources that Godolphin does. It's a seven-day-a-week operation whilst we are here; then the whole operation packs up just like a circus and moves back to Newmarket."

However, the aim is not just to have a superbly fit string of racehorses with which to blitz the early-season English classic races. As the sport becomes more and more international, top European horses are now expected to compete in Hong Kong, Japan and the US.

Dubai is strategically placed as a gateway between east and west, and is becoming the centre of gravity for top racehorses, just as Arabia used to be. Racing is evolving back towards its origins in the 17th and 18th centuries when three Arab stallions imported into England established the foundations of the modern racehorse.

Next March sees the inaugural Dubai World Cup. With a $4m prize fund, a challenge between the finest invited horses from each continent will become the most significant financial prize in the sport.

It gives Crisford, a remarkably young-looking 33, enormous power within racing. Normally one achieves eminence as a trainer, jockey or owner, yet although he was once assistant trainer to John Dunlop, this season's top English trainer, Crisford has done none of these things. He is a relatively new breed: the racing manager who puts the jigsaw pieces together.

So far it has seemed to work. A strike rate of six classics in just two seasons is remarkable by any standards, and Lammtarra's breathtaking Derby win at Epsom last June will be talked of by generations of racing fans.

"Horses return from Dubai with an edge. It may not be much, just a neck perhaps, and it may only last a couple of weeks, but if that's enough to win a Group 1 race [the highest category] then the system is working," says Crisford. His manner is low-key, insistent on just one point. "It isn't money. We have resources, but we are not buying the wins. Someone can give you a Rolls Royce, but it's still awfully easy to crash it."

British heritage to bedlam and back

Colin Amery on new uses for 19th century asylums

"He's gone to the loony-bin." I can remember with great excitement hearing those words as a child when my brother announced that a neighbour had just been committed to the Colney Hatch Asylum. The poor old colonel was never to return home again.

I used to accompany my parents when they visited him and for me these visits were a major architectural thrill. I wasn't allowed to go inside the asylum, much as I wanted to see our neighbour singing hymns and conducting an imaginary Salvation Army band.

Instead I wandered around looking with amazement at the twin domes and imagining I was seeing some great Italian palace. The building stood at the top of a hill and was incredibly imposing. Along the front of it ran a single storey arcaded corridor that was reputed, at over 800ft, to be the longest corridor in Europe – if not the world.

There is very little evidence that these architectural splendours contributed to any easing of the mental strife of the patients. Indeed they probably only encouraged a sense of increased isolation and megalomania.

Frien Barnet Hospital, which was the proper name for Colney Hatch, had been opened in 1849 by Prince Albert. It was enormous and when going full tilt could house 1,250 patients on its 40-acre site. It has been empty since 1990 and has been partially demolished while being marketed for redevelopment.

By the year 2000, according to a new SAVE Britain's Heritage report, some 98 out of a total of 121 large mental hospitals will have closed. By the end of last year some 36 had closed with the remaining closing at a rate of 15 to 20 a year.

The closures have to be seen alongside the despatching of many NHS hospitals – several have already been demolished and their sites sold for development. The context is in fact even wider. Naval and military buildings of great national and architectural significance are under the hammer of the auctioneer or the demolition team. Last week the deadline for offers for the Royal Naval College at Greenwich passed and the appropriate ministers have now to decide between a variety of bids.

The range is wide and some are in financial terms very substantial. Should it be an international management school or a new university – surely it has enormous residential possibilities. SAVE claims that not since the Beeching axe fell on the branch lines of our railways has so much of the nation's public architectural heritage been made so precipitately redundant.

No longer do we have to worry about the fate of privately owned country houses. They are very desirable to rich individuals from all over the world and it is true to say that country houses have never been so well looked after. It is the vast inheritance of the 19th century builders in and around our cities that is the conservation problem for the end of the twentieth century. It is the scale and quality of this inheritance that is daunting and impressive.

The redevelopment of a listed, but redundant hospital in central London illustrates one way of dealing with this inheritance. I was shown around the building by the same agents who are marketing the Royal Naval College at Greenwich, Knight Frank and Rutley.

The former hospital, St. Peter's in Covent Garden is a very fine late 19th century building by the architect Brydon, who designed a great many government offices. Its external carved brick decoration and its cupola is a good example of the "Queen Anne Style". It has the unique advantage of backing on to the only garden in Covent Garden, which is the churchyard of Inigo Jones's St. Paul's church. In spite of the advantages, St. Peters has had to be substantially re-designed as seven large apartments by the developers F. L. Estates. They had the unusual idea of approaching several leading architects to produce suggested layouts for the flats. They have selected an eclectic and intriguing list of younger architects – John Robins; Chris Wilkinson; Powell-Tuck Associates; and Birds Portchmouth and Russum.

Because of the narrow nature of the former hospital the spaces are lit from both sides and the wards have ceiling heights of more than 14ft. Conversions of older buildings are highly desirable and Knight Frank and Rutley should have no difficulty selling these flats. Developers and investors are still nervous about residential development but there is much more long-term value in a fine old building turned into original flats than in any number of retail sheds.

The potential for the relatively unknown asylums is enormous. Many of them were designed by good architects as a result of architectural competitions. They were nearly always sited by the Victorians on south facing slopes in landscaped grounds, which are now at a fine point of maturity. Some of them had working farms and chapels, and all of them had several large halls. Many would make wonderful new communities that could appeal to those seeking an alternative and self-sufficient life style.

The worrying aspect of such a wholesale disposal of property is the NHS's tendency to sell off piecemeal the parts that have obvious value, leaving many of the listed buildings to rot.

SAVE's report should be read by intelligent developers and by Mr Stephen Dorrell, the health secretary. Mr Dorrell must have thought that he had finished with heritage – in fact his NHS estate is the biggest heritage headache of them all. But it is also a wonderful opportunity, as St. Peter's proves.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
AVCO Tst FRN '98 £178.66
Akzo Nobel Fl1.50
Aoi Advertising Promotion FRN '98 $3377.31
Banco Real 8.5% Nts '96 $425.0
Bank of Scotland Undtd Prim Cap FRN $329.38
Beazer Homes 3.9p
Bemrose Corp 5p
British Gas 7⅞% Nts '97 £76.25
Caterpillar $0.35
DFS Furniture 10p
Derwent Valley 1.73p
Exchequer 12% '98 £6.0
Finland (Republic of) 7¾% Bd '97 DM77.50
Fintrust Debenture 9.25%
Several Db '23 £4.625
General Motors Acceptance Nts Mar 20 2000 £24290.0
Graham 1.9p
Groupe Chez Gerard 1.65p
HCG Lloyd's Inv Tst 1.25p
Hambros Smlr Asian Cos Tst $0.0045
Hickson Intl 2p
Hollas 0.1p
Iceland 1.65p
Industrial Control Services 2.1p
Intl Bank for Recons & Dev 12% Nts '95 £120.0
Klearfold $0.01
MBE Finance Tr A Dual Basis Bd '04 $34045.14
Do Tr B Dual Basis Bd '04 $33788.19
Merivale Moore 2.5p
Nippon Telegraph & Telephone 7¼% Nts '98 $72.50
Do 7¾% Nts '99 $77.50
Peninsular & Oriental Steam Nav 7¼% Conv Bd '03 £36.25
Portugal (Republic of) 9% Ln '16 £225.0
Renishaw 4.71p
S & U 3.5p
Suter 3.7p
Toyobo FRN '99 £33177.0
Treasury 2½% IL '03 £2.3426
Do 2½% IL '09 £2.3426
Wells Fargo $1.15
Yokohama (City of) 8% Bd '21 $400.0

■ TOMORROW
British Data Mgnt 3.75p
Britton 1.2p
Bryant 3.6p
Chime Comms 0.46p
David Brown 2.4p
Ford Credit Europe 8⅝% Nts '97 £86.25
Govett & Co $0.11
Hamleys 2.7p
Japan Development Bank 9¼% Nts '97 $462.50
Nationwide Bldg Scty 13.5% Sb Nts 2000 £1350.0
Nippon Yusen 7½% Nts '95 Y750000.0
Peninsular & Oriental Steam Nav Defd 13.5p
Quarto 2p
Rackwood Mineral 1p
Sherwood Grp 1.3p
Thames Water Utilities Finance 10½% Bd '01 £1050.0
Treasury 12½% '03/05 £6.25
Wensum 1.575p

■ WEDNESDAY NOVEMBER 22
Albright & Wilson 2.15p
Arcolectric 0.668p
Do 'A' Non Vtg 0.668p
Chase Manhattan Sb FRN 2000 $153.33
Conversion 10¼% '99 £5.125
Doeflex 2.1p
European Inv Bank 10% Ln '04 £259.375
Fired Earth 1p
Kawasaki Steel 7.25% Bd '99 Y725000.0
Do 7.25% Bd 2000 Y725000.0
LGS Inv 8.75% Secd Bd '20 1.76438p
Laing (John) 3p
Do Ord 'A' (Non Vtg) 3p
Lendu 0.25p
Lloyds Bank Ser B Sb VRN '98 £176.75
Merrill Lynch $0.26
Midland Bank Sb FRN '01 £87.12
NatWest Bank Undtd VRN £192.19
TSB Offshore Inv Fd Partg Rd Pf 1p High Inc 2.25p
Do Partg Rd Pf 1p Intl Bd 4.22p
Do Partg Rd Pf 1p Island Eqty Fd Cl 0.659p
Do Partg Rd Pf 1p Stlg Deposit 1.4p
Do Partg Rd Pf 1p Uk Eqty 2.34p
Trans-Tokyo Bay Highway 8⅜% Bd '04 $418.75
Treasury 2½% IL Conv '99 £2.2541
Treasury 14% '98/01 £7.0
Tweefontein Utd Collieries R3.26
United Inds 0.15p
Watts, Blake, Bearne 4.4p
Wells Fargo Sb Cap FRN '98 $154.93

■ THURSDAY NOVEMBER 23
Bristol & West Bldg Scty FRN '99 £1742.33
Cardiff Auto Receivables Secs'tion No.3 Cl A FRN '98 £179.90
Do Mezz FRN '98 £203.22
Clarkson (Horace) 1.25p
Development Sec 0.8p
Domestic & General 23p
Molyneux Estates 1.75p
New City & Commercial Inv Tst 1.3p
RAP Grp 1.65p
Sunderland (Boro of) 11¾% Rd '08 £5.875
Trinidad & Tobago (Republic of) 12¼% Ln '09 £6.125

■ FRIDAY NOVEMBER 24
Adwest 5.5p
Alpha Airports 1.75p
Atlas Covering Equipment 7p
BAT Capital Corp 6½% Bd '03 £65.0
BTR 6.925p
Bradford & Bingley Bldg Scty Sb FRN Feb '99 £188.10
Brent Intl 0.6p
British Aerospace 10¾% Bd '14 1075.0
British & American Film 5.5p
British Fittings 1.2p
British Gas 9½% Bd '17 £4750.0
British Polythene Inds 5.5p
Brooks Service 1p
CLS Hldgs 2.1p
Cadbury Schweppes 4.9p
Capital & Regional Properties 0.8p
Denmark (Kingdom of) FRN '98 £168.96
Eaton $0.40
Fujita Inv FRN '98 $1587.64
Gartmore Scotland Inv Tst 3.2p
Do Package Units £8.0
Greenacre 0.19p
Haggas (John) 2p
Halifax Bldg Scty FRN '97 £175.02
Hampden 0.5p
Highlands & Lowlands Bhd M$0.05
Instem 1.5p
Intl Energy 1.12p
Ipeco 1.3p
Irish Life IR3.25p
Kerry 'A' Ord IR1.1p
Kingfisher 4.5p
Lilleshall 1.85p
Lloyds Eurofinance FRN '96 £87.26
Murray Intl Tst 2.9p
Norcor 1.65p
Redland Funding 10¾% Bd '14 £1075.0
Royal Bank of Canada C$0.31
Ruberoid 1.9p
Rutland Tst 0.33p
SR Pan-Euro Inv Tst 0.3p
Strong & Fisher 0.2p
T & S Stores 2.8p
Yorkshire Bldg Scty 11⅜% Sb Bd '22 £1137.50
Yule Catto 3.2p

■ SATURDAY NOVEMBER 25
Aluminium Co of America $0.225
TSB Gilt Fund Partg Rd pf (Cl B) 0.68p
Tay Homes 5.45p
Treasury 6¼% '10 £3.125

■ SUNDAY NOVEMBER 26
Forte 6¾% Sb Conv Bd '08 £33.75
Treasury 6¾% '04 £3.375

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
ECU Tst, City Gate House, 39-45, Finsbury Square, E.C., 12.30
Haggas (John), Keighley, W.Yorks., 11.00
Hays, Hogs Back Hotel, Seale, Farnham, Surrey, 12.00
Molyneux Estates, Crystal Gate House, Worship Street, E.C., 11.00
BOARD MEETINGS:
Finals:
ABI Leisure
Diploma
F & C Eurotrust
Ivory & Sime Enterprise
Interims:
Applied Holographics
Capital Ind
Cropper (James)
DBS Mngmt
F & C German Inv Tst
South Staffordshire Water

■ TOMORROW
COMPANY MEETINGS:
Lucas Inds, New Connaught Rooms, Great Queen Street, W.C., 2.30
BOARD MEETINGS:
Finals:
Amber Indl
Anglo Irish Bank
McLeod Russel
Interims:
Bering Stratton
CML Microsystems
De La Rue
Faupel Trading
Fulcrum Inv Tst
Hewetson
Kalamazoo Kaltwear
Lowndes Lambert
Meyer Int
M & G Income Inv Tst
M & G Recovery Inv Tst
Northern Foods
Northumbrian Fine Foods
Readicut Int
RIT Capital Partners
Shires Inv
Sketchley
Vodafone

■ WEDNESDAY NOVEMBER 22
COMPANY MEETINGS:
Baillie Gifford Japan Tst, 1, Rutland Court, Edinburgh, 12.30
Lloyds Chemists, Nalcote Hall, Nalcote Lane, Barford, Warwicks., 10.30
BOARD MEETINGS:
Finals:
American Opportunity
Ferranti
Granada
OEM
Interims:
Courtaulds
FKI
F & C Private Equity
IWP Int
Kewill Systems
Matheson Lloyds Inv Tst
Siam Selective Growth
Symonds Eng
Wagon Indl

■ THURSDAY NOVEMBER 23
COMPANY MEETINGS:
Hong Kong Inv Tst, Knightsbridge House, 197, Knightsbridge, S.W., 10.30
Maunders (John), Holiday Inn Crowne Plaza, Peter Street, Manchester, 12.30
Schroder Japan Growth Tst, 33, Gutter Lane, E.C., 11.00
BOARD MEETINGS:
Finals:
Murray Emerging Economies
On Demand Information
Tomkinsons
Interims:
Babcock Int
Bogod
Brockhampton
Caledonia Inv
Chloride
Darby
Gartmore Shared Equity Tst
Locker (Thomas)
Macdonald Martin Distilleries
Martin Currie Euro Inv Tst
North West Water
Powell Duffryn
Storehouse
TLG/Tex Hldgs

■ FRIDAY NOVEMBER 24
COMPANY MEETINGS:
Galliford, Hilton National Hotel, Coventry, 10.00
Pochins, Brooks Lane, Middlewich, Cheshire, 12.00
Tay Homes, Queen's Hotel, City Square, Leeds, 2.30
BOARD MEETINGS:
Finals:
SEC
Interims:
Cambridge Water
Dart
Grampian Television
Latham (James)
London Clubs Int
Osborne & Little
Quilligotti
Stoddard Sekers
TR Property Inv Tst

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

هكذا من الأصل

End of the line for telephone tyranny

Tim Jackson

The other day, I noticed something startling about the "personal information manager" that my PC uses to keep track of appointments and things to do. In its *contacts* book, the package contains no field marked "phone number".

Instead, *it has* an entire page of numbers for each contact: two for business, two for home, and one each for fax, assistant, mobile and pager. That list – eight different numbers for everyone – is a reminder of how technology has changed the old problem of telephone tag.

Instead of being unable to reach people we want to talk to, we now have a surfeit of different ways to reach them. It can be tiresome to run through the list of possible numbers, trying each in turn in the hope of finding the right person.

So the service due to be launched in Britain at the end of this month by the Personal Number Company is likely to attract considerable interest. For a sign-up fee *of £120* and a monthly subscription of £3, PNC offers something that most telephone *subscribers* have never considered possible: a way of giving friends and business associates just *one number*, which follows its owner wherever he or she goes during the day, from home to car to work *and back*, and to as many different places as desired in between.

Strictly speaking, the service is not new. It has already been offered both in the US and in Britain, and the technology it uses is *pretty* basic stuff to telephone network engineers. It is also *easy to use*. With a *simple PIN, customers can* punch in details of the phone to which they wish calls to their *personal number to be directed. Yet I* believe this apparently attractive service to be a loathsome idea, and *believe* it will be worth explaining why.

First, a caveat. In the long term, it makes good sense for numbers to be attached to people rather than to telephones, so that nobody needs to change their number when they move house or job, as one person in seven does every year. Such a service, delivered at a reasonable price, has clear benefits.

At present, the price is far from reasonable. In the UK, callers to personal numbers have to pay the D rate, the most expensive inland tariff *after mobile* phones and *premium*-rate lines. But William Goodall, managing director of FleXtel, a *Cheshire company that* launched a "numbers for life" service last June, believes that the premium will fall to only 1p a minute above the landline cost within a decade.

What about short-term personal numbering – the kind that forwards calls to different places in the course of the day? Plumbers, doctors and travelling salesmen will undoubtedly find that it makes their lives easier. One of the Personal Number Company's first subscribers has been a vicar, who travels from parish to parish filling in for absent clergymen but still wishes to stay in touch with friends and family.

But most people's livelihoods, thankfully, do not depend on being available all the time to any Tom, *Dick or Harry who wishes* to reach them. And far from needing to be more accessible to telephone calls, many of us would benefit from being harder to reach.

Proof of this can be seen in the fact that people at work who need to concentrate on something that is difficult or time-consuming are often forced to go home in order to avoid the constant interruptions of the phone. Even at home, many people who would not hesitate to tell someone who interrupted their dinner by knocking at the front *door to go away* will rush to the telephone as soon as it rings.

Thankfully, technology itself is *beginning to set things to rights*. Calling-line identification, known in the UK as CLI and in the US as caller ID, allows telephone subscribers to see who is calling before they decide whether to pick up the phone. Although it was introduced in Britain a year ago, CLI has not yet made the progress it should; most people stick to the free version, which allows them to check the caller's phone number only after the decision to pick up or not has been taken.

In the long term, more intelligent telephones will bring greater benefits. Not only will they show on a screen the caller's name (or, strictly speaking, the name of the subscriber at that number). They will also allow phone users to filter incoming calls automatically – warning the phone, for instance, to *emit a special ring* when an important caller is on the line, or to leave the voice-mail to deal with callers they particularly *want to avoid or* simply anyone they do not know.

Once again, this technology is far from rocket science. *But it could* diminish the tyrannical role that telecommunications have come to assume in our lives. Instead of picking up the phone just in case the matter is important, we will be able to treat calls with the same discrimination we apply to visitors who turn up without appointments. And for the first time in a century, the balance of power between calling party and called party will be restored.

Tim Jackson can be reached at Tim.Jackson@pobox.com

Cyber sightings

by Stephen McGookin

- Info-Mine (found at *www.info-mine.com*) is an excellent database of international mining-related material – particularly strong on latin America – featuring the Mining Yellow Pages and information from publications like Metal Bulletin and Mining Journal.

- Frankfurt Money Strategist (*www.fmstrategist.com/fms*) is an English-language source of financial research focusing on German and EU-related currency and political information.
  The firm offers a subscription-based *service, but you* can read the weekly synopsis at the Web site. Good background *material*.

- Barclays Bank has extended *its* Web presence by putting up a number of pages for its stockbroking service (*www.barclays.co.uk/stock/home*). Informative, but primarily a marketing vehicle, it features new issue details, information on CREST, a Stock Exchange calendar and the firm's financial and economic overview (although for some reason the Money Monitor table was last updated on August 3). Good sectoral roundup, though.

- The Law Journal Extra (*www.ljx.com*) is a very good legal resource site with relevant issue-based forums: currently, business and legal aspects of the Internet and intellectual property rights in the electronic age.

- Details of next month's Internet World International exhibition in London – which this year is part of the Online Information 95 show – can be found at *www.iwi-learn.com* or through conference organisers Learned Information (*www.learned.co.uk/online95*).

- The Economic Development Zone (*http://edn.embark.com/edn/index.html*) at the Interactive Economic Development Network, is a gathering place for Economic Development practitioners – registration is required – with a wide range of material, including an indexed Economic Development Encyclopedia, a who's who directory and an online vacancies clearing house.

- The International Chamber of Commerce (*www1.usa1.com/ibnet/icchp.html*) provides an indexed link to various chambers around the world, a good set of informative sister sites and direct access to destinations on the Electronic Silk Road. Easy to use and interesting.

- Canadian Stock Market Reports (*http://canstock.com*) is an information source covering the four Canadian exchanges. Free trial subscriptions are available for evaluation purposes.

- A searchable (in English) partial version of the official Japanese phone directory is at *www.pwarnet.org/jtd* as a trial service for the next two years. It seems pretty straightforward, but is restricted to parts of Tokyo, Osaka and Kyoto. Useful service, but registration is required before you can use it.

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Financial Times on the World Wide Web
www.ft.com
or
www.usa.ft.com
Updated daily

Africa's tentative approach to the Net

Martin Mulligan joins journalists online in Ghana

When talk turns to the Internet, *Africa is not the first* place which leaps to mind. Far from being at the cutting edge of *electronic communications*, the debtor nations of the world's second largest continent are popularly perceived as bedevilled by *power cuts*, poor infrastructure and lack of trained personnel.

It comes as a surprise, *therefore*, that Accra, Ghana's capital, is fast evolving into an Internet hub for west Africa. *William* Tevie, deputy director of Accra's only full-service Internet access provider, Network *Computer Systems (NCS), is ada*mant about that. His company offers what he describes as an *international gateway to global communications*.

NCS already boasts 140 subscribers in *Ghana* and will break even when it has 200. These subscribers are at present a cosmopolitan blend of embassies, chief executives, non-governmental organisations, companies and ministries. Tevie says Kojo Yankah, Ghana's deputy minister of information, must take much of the credit for Accra's Internet pre-eminence as he has promoted local adoption of the technology.

Ghana, Tevie emphasises, is only the fourth sub-Saharan African nation to go online, after South Africa, Botswana and Zambia. These four now have full Net access.

Last August Tevie spent a day introducing the Net to an audience *of 18 Ghanaian journalists* at the company's premises on Accra's leafy Sixth Avenue. NCS's offices are modern *and well equipped, though* they are found at the end of a red dirt track. Their curtains were drawn *against Accra's ochre dust and the* day's heat as Tevie sketched with broad strokes the technological envi*ronment that Ghana has now* entered.

"Ghana's local Internet structure *and capacity is in advance of French* west Africa's," he declared, adding that Kenya leads in terms of e-mail, *with daily non-commercial traffic of* 1MB. But electronic networking in the 14 countries of French-speaking *Africa consists primarily of e-mail*, bulletin boards, data base access, news feed and small file transfers.

True *Internet* connectivity, *Tevie* insists, offers much more, including instant access to messages, the possibility of browsing by hypertext links, access to newsgroups on thousands of subjects by means of news reader programs, and even video transfer.

The francophone west African countries, he says, remain tied to a clumsier system, managed for them by the government-linked French research entity Institut Français de Recherche Scientifique pour le Développement en Coopération (ORSTOM is its odd acronym).

The pathways of this system are all routed via Montpellier, a laborious and inefficient diversion. The chief disadvantage is that it is run on a so-called "store and forward" basis. All messages are collected and sent to Montpellier "maybe once a day or twice a day," says Tevie. The *francophone system also lacks* World Wide Web, has limited research possibilities, and its proto*cols are altogether less flexible*. Ghana's dizzying Internet options are light years in advance of this, says Tevie.

All good stuff, but the journalists he was addressing, who receive an average wage of less than £100 per month, would have to part with a year's salary to buy even a lap-top computer. *The technology may* appear promising and tantalisingly available, but it is not affordable: *only individuals of very high net* worth in Ghana have access to it.

In other words, far from being a liberating, empowering influence, the Internet's arrival in Ghana seems only to have consolidated the status quo. NCS charges an annual registration fee of $100 (prices were not given in cedis, the local currency), and a monthly usage fee also of $100. It was cold comfort, after this, to hear Tevie's claim that communities of users are forming within Ghana which cannot be controlled by large business interests; or that all information was transferrable to any global address in milliseconds.

But then Ghana, after all, is not the only place in which an income gulf separates Internet users from non-users. How many ethnic Americans can even access existing print-based resources in their inner cities, let alone electronic media?

Nor did the Internet begin life as a philanthropic enterprise. Quite the reverse: it originated in the 1970s in the US as a government project to establish a "self-healing" system of networks designed to survive a nuclear strike.

The jolly province of today's cybersurfers, in brief, cheerfully dubbed "the information superhighway" by US Vice-President Al Gore, is in fact a child of the cold war and of nuclear stalemate.

At the journalists' meeting in Accra, Andy Bulley, NCS's chief technician, demonstrated the Internet's possibilities. Intrigued, the journalists crowded round his multi-coloured screen for their first encounter with the new technology.

After a dutiful dalliance with the FT's home page, Bulley invited the Ghanaians to venture online. What would they choose to do? In similar seminars in Britain and in north America, newcomers tend to hit the White House home page, with its icon of Socks, the Clintons' cat, or to head for the Playboy page.

In Accra, consensus quickly emerged. The group would create and send a signed document to Nigeria's leader, General Sani Abacha, protesting at human rights violations in his country.

It was a small but luminous illustration of the best possibilities of the new-media era.

Pupils accelerate from classroom to infobahn

Net literacy tops the agenda, says **John Authers**

Pupils in the UK may soon have a chance to move from information highways and by-ways on to the education superhighway.

Last week, the government announced that it was distributing £20m between 23 pilot projects to link schools to broadband networks. Most already have firm backing from both public and private *sector partners, and some have* already started.

This followed a six-month *consultation* throughout British education, which revealed enough problems to douse *enthusiasm*. Apart from the costs, schools were also worried about the difficulties of *managing their own networks*. New technology would be of no use if teachers could not use it *with confidence*. But importantly, everyone seemed to recognise the need for children *to develop network literacy*.

The intention is that the best pilots will form the backbone of the new broadband super highway which is to replace the Internet, with which many schools are already experimenting. All the pilots use at least "intermediate band" technology (such as ISDN lines), and the government hopes for a "progressive migration" to more powerful connections.

By experimenting with the educational applications now, the government hopes to avoid repeating the "display computer" phenomenon seen in earlier well-intentioned drives to introduce schools to new technology. Schools would gratefully take delivery of their new computers, but there were not enough to use in lessons, and *the staff did not* know enough about how to use them, so they stayed in supply cupboards. They would only see the light of day when on display to parents at open days.

Arguably the most ambitious project involves British Telecommunications in a joint venture with ICL, the computer and software company.

They are linking 11 schools in Withywood, a suburb of Bristol, using a range of online services. Multimedia personal computers provided to each school (so that there is at least one computer for every six pupils) will be linked together within the school, on local networks, and externally to the Internet and special educational databases. These, in common with several other pilot projects, will include integrated learning software packages. The packages lead the new generation of educational software, and allow computers to fire questions at pupils, mark the answers, and then calibrate their next questions to the child's ability.

The package also includes desk-top video-conferencing, which will link the schools, but will also allow teaching support from the University of Exeter's school of education. The entire service is managed at a distance by ICL, which will provide an education online help-desk.

This aims to address all the chief problems. According to David Oliver, general manager of ICL Lifelong Learning: "One of the key things to come out of this will be that teachers will not perceive infrastructure management to be an issue. Instead, the issue will be what they can do with it."

He points out that finding a full-time systems manager for a school network of this sophistication is a crucial problem, particularly in primary schools where teaching staffs are rarely into double figures. The arrangement in Withywood allows schools to outsource the problem altogether. Meanwhile, ICL and BT are hoping they can find ways to reduce costs through economies of scale.

The educational potential is obvious. Teachers can give lessons at a distance on a large screen, making multimedia presentations as they do so, for example. Other inner city projects cover Birmingham and south London.

But unlike most highways, the educational one is starting by joining very rural and isolated *destinations*. This reflects the first uses of "distance learning" for children, which were *designed to help give children* in remote areas such as the Australian outback more contact with their peers.

Projects to win backing include a video-conferencing network for Argyll and Bute in Scotland, the Powys LEA Project (part of the "Rural Wales Network") which will provide a direct intermediate band link to the internet and will allow all the schools involved to produce their own World Wide Web pages, and the Superhighways for Able Children in Small Rural Schools – a consortium which links the Highlands of Scotland with the Western Isles and the Orkneys. This will experiment with "collaborative" learning to allow the brightest children in the area to work together on elaborate simulated problems.

Other projects attempt to use the technology for home-school links, and community learning centred on further education colleges. Several colleges have pilots for training provision which they hope ultimately to expand so that employers can offer them from the workplace.

All will be cost-conscious, but no projects address the key problem of affordability directly. Oftel, the telecommunications regulator, last week suggested a remedy. Labour's proposed deal with British Telecommunications to provide every school with a link free of charge still reverberates throughout the sector, although this does not address the problem of high on-going costs for schools.

Don Cruickshank, Oftel director general, suggested that the principle of the universal service fund, which guarantees connections to "loss-making" rural areas and low-volume users, might be extended to set the prices of connections for schools at a fixed and "affordable" level.

Rather than use tax-payers' money, the regulator would require telecommunications companies to meet the cost. As they would pass on the costs to other users, this would effectively mean a cross-subsidy from wealthier users.

Cruickshank's proposals were tentative, but they were welcomed by Michael Heseltine, the deputy prime minister, who likened the proposal *to the universal postage* stamp – or a universal toll for a new highway.

Superhighways for Education: The Way Forward. HMSO. £4.95.
Also available on Department of Education and Employment home pages: *http://www.open.gov.uk/dfee/dfeehome.htm*

BUSINESS TRAVEL

Egyptian train attack

Suspected Moslem militants opened fire on a train between Aswan and Cairo at the weekend, killing one worker and injuring others, security sources said yesterday. This was the third gun attack in two weeks along the track through Upper Egypt. In a previous attack two European tourists were slightly injured, writes *James Whittington*.

Most western embassies advise visitors not to travel overland between Cairo and Luxor or Aswan.

Cape Town crime

Foreign visitors arriving in Cape Town at the weekend were greeted at the airport by the regional police chief, who gave them pamphlets on how to avoid being mugged. Police spokesman Captain John Sterrenberg says visitors are soft targets for criminals because they are easy to identify.

"The brochures, which are being distributed in all tourist areas, won't turn tourists into instant Ninja Turtles, but they give them valuable safety hints on things they might not think of," he told reporters. Security experts say crime has made South Africa one of the world's most dangerous countries outside a war zone.

Take-off for BA's 777

British Airways has started flying its new Boeing 777 aircraft, whose delivery was delayed for a few months because of difficulties with its General Electric engines. BA and GE say the problems have been solved, writes *Michael Skapinker*.

BA launched commercial flights with the 777 on Friday, flying from London's Heathrow to Dubai and Muscat. The airline will take delivery of two more 777s before the end of the year, to be used initially for services to Paris and Cairo.

Taiwan gets ready

The only people to have flown directly between China and Taiwan in recent years have been hijackers. Yet Taiwan's domestic airlines are spending millions of dollars preparing for a boom in air traffic once a ban on direct links with China is lifted. An end to the ban could also lead to a buying spree of foreign aircraft and to mergers between local carriers, airline executives in Taiwan say.

"People are expecting direct links with China to start before 1997," Charles Wu, vice-president of a domestic carrier, Great China Airlines, told Reuter. "The market will be very big."

The ban on direct links, which means passengers must go via a third territory, such as Hong Kong, has been in force since 1949. But a gradual thaw in bilateral ties since the 1980s, and the fact that Hong Kong will revert to Chinese control in 1997, have raised hopes that the 137-mile Taiwan Straits may soon buzz with commercial traffic.

These hopes are being translated into aircraft purchases by local airlines, fanned by a belief that direct links may mark a watershed for carriers in an overcrowded home market. Although Taiwan's passenger market is growing at 10 to 15 per cent a year, over-capacity caused partly by buying on expectations of direct links with China has meant wafer-thin margins for many carriers.

Gatwick to Shannon

An air service linking London Gatwick with Shannon in Ireland is due to be launched next month by AB Shannon, a subsidiary of Air Belfast.

Two return flights a day will be offered from the first week in December, says Air Belfast chairman Brian Beal.

Air Belfast itself operates between Belfast and Stansted, and plans to start a Belfast-Gatwick service next month. It is discussing through check-in for passengers (plus luggage) at Shannon with a number of international carriers that use Gatwick as their London gateway.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Hong Kong	22	24	[illegible]	22	23
Frankfurt	4	4	[illegible]	[illegible]	4
L.Angeles	22	22	[illegible]	[illegible]	21
Paris	7	8	11	10	8

Maximum temperatures in Celsius

Oil applied to creaking Baku

Azerbaijan's capital is slowly gearing up to western standards, as Scheherazade Daneshkhu finds

Baku, the capital of the former Soviet republic of Azerbaijan, is attracting a growing number of western business travellers, mainly from the oil industry.

Also arriving from the west is cigarette advertising. At Baku's airport the neon signs of Winston, Kent and Marlboro glow more brightly than the airport's lights. As we got off the sparsely filled Lufthansa flight, the smell of oil was pungent in the night air. Men in beige raincoats waited expectantly around a black limousine to welcome a visiting, but eventually absent, dignitary.

We filed on to a rickety bus with cracked windows and no lighting. Despite the small flight, it still took nearly an hour to get through passport control, staffed by two uniformed men squeezed into a tiny box.

The airport has a new runaway which can accommodate jumbo jets; its older one often cannot be used in winter when it is sometimes waterlogged. Mr Arne Hoffmann, Lufthansa's station manager, says that because there is no luggage handling at the airport, the airline does it itself. It also lends a hand occasionally with the air traffic control, usually when the duty controller is unable to speak English. Fortunately, says Mr Hoffmann, there are so few international flights that it is safe to do this.

Lufthansa and British Airways started flying to Baku twice a week earlier this year. Lufthansa flies from Frankfurt while the British Airways flights are from Gatwick via Bucharest in Romania. Azerbaijan Airlines, which is not a member of the International Air Transport Association, also operates flights from Frankfurt, London and Istanbul.

Demand on the Baku route is growing, says British Airways which is introducing a third weekly flight from the new year. But neither airline offers an intercontinental service in its business class, which must be a disappointment, particularly to travellers from the US, who have to change planes in Europe and get into smaller seats for the last leg to Baku.

Lufthansa says it is keen to introduce an intercontinental service, as it has for Tehran in Iran, but is waiting for load factors on the route – which are now between 40 per cent and 55 per cent – to improve before upgrading the service.

Once in Baku, you are not spoiled for choice when it comes to hotels – yet. Hyatt is the first of the international chains to open a five-star hotel but Marriott is also looking at the city, as are at least two others. Nevertheless, it is unlikely that the 160-room Hyatt Regency Baku, which opened in May, will see any competition for another three years. It is thus able to charge premium rates and is the most expensive in the city. A double room starts at $250, excluding a $15 breakfast and 20 per cent value added tax. Rates are going up in the new year.

By the end of next month, the hotel, which already has a swimming pool, basement casino and shops, will open a pub, fitness and business centre. Mr Peter Richards, general manager, says that food, which used to be trucked in from Istanbul, is now flown in from France. Fruit and vegetables are bought locally since they are good quality, he says. So far, all the hotel's guests have been business travellers – apart from one female tourist, who did not stay at the hotel but she did take tea there.

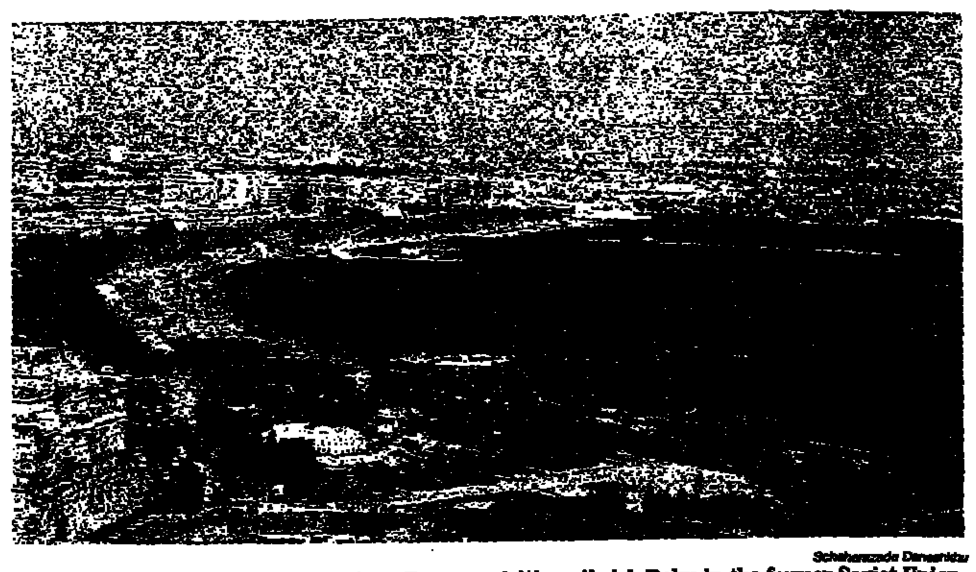
Other hotels in the city include the 600-room Soviet-style Azerbaijan on the waterfront. It boasts an espresso bar in the foyer alongside a glass-topped table displaying a wide variety of medicines. Rates start at $50 for a small, dingy room with questionable sheets and a well-worn bathroom, but expect to pay at least $150 for refurbished rooms.

Foreign currency must be declared on arrival and the local currency, the manat, cannot be imported or exported. For most travellers this will not matter very much, since shopkeepers and taxi drivers are only too happy to accept dollars. At the beginning of last year there were 200 manats to the dollar; by the end, it increased to 5,000. However, the government has since managed to curb inflation, and it now hovers at between 15 per cent and 20 per cent a year.

Getting around is relatively easy since taxis are cheap but drivers are unlikely to speak English. And as the cost of a trip can vary widely from cab to cab, it is better to stick with hotel taxis or pre-arrange a car with driver. Baku does have an underground system but, after the fire which killed 300 people last month, the temptation to use it is not too strong.

A favourite grumble in Baku is about the telephone system. Mr Richards says that telecommunications at the hotel were "a nightmare" for the first three or four months, but the system has now been fixed. Many Azeris, particularly younger businesspeople, carry mobile telephones, with Motorola taking the lion's share of the market. Azerbaijan operates an enhanced total access cellular system – an analogue system – and has no plans to introduce a global system for mobile communications.

There are few grumbles about crime, though. Expatriates stationed there say they find it a safe city.



Scheherazade Daneshkhu

Sea change: more western business travellers are visiting oil-rich Baku in the former Soviet Union

How to achieve a trouble-free trip

The prospect of travelling around the former Soviet Union can seem daunting, with reports of badly maintained aircraft and crime, Scheherazade Daneshkhu writes.

However, there are guides that can help, and travellers can also get advice from the Foreign Office in London, while the State Department does the same for US citizens. Worldmark Travel, a London-based joint-venture business travel agent between Hogg Robinson in the UK, BTI Polska in Poland and Epic Travel in Russia, has published a guide for travel in the former Soviet Union and eastern Europe.

Mike Chandler, chairman, says no one going to the former Soviet Union should underestimate how long it can take to get a visa.

"You will only obtain a visa in some former Soviet Union countries if your application is accompanied by the written support of the company you intend to visit," he said. "This needs to be stamped by the Ministry of Foreign Affairs. And in Russia this is only made possible by your Russian colleagues queueing at the consulate in Moscow."

He advises against trying to get around this by asking for a tourist visa: "Without the correct papers you could be deported," he warns.

The Foreign Office says visitors to Russia must carry personal identification at all times, and since mugging and violence is increasing in all cities, especially St Petersburg and Moscow, advises travellers to dress down. "It is safer to use officially marked taxis which you should not share with strangers. When travelling by train . . . do not leave the compartment unattended. Ensure the door is quite secure from the inside by tying it closed with wire or strong cord," it says.

Visitors should also check any health warnings for the areas they are visiting. There is an epidemic of diphtheria in many parts of Russia while other former Soviet Union states have recently had outbreaks of typhoid and hepatitis.

Chadwick says arranging a "business meet" at the airport will speed your passage through it. And cash is absolutely essential – always carry small denominations of clean US dollar bills produced after 1990. Travellers cheques can be difficult to change, he says, but a credit or charge card is useful.

Business guide to travel in the former Soviet Union and eastern Europe, Worldmark, Alliance House, 12 Caxton Street, London SW1H 0QS, £3.75

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ARTS

OPENINGS

LONDON An exhibition of Jain art opens at the Victoria and Albert on Thursday. Jainism has a 2,000-year history and about 6m adherents, largely in India. Exhibits include bronze, stone and wood sculpture, manuscripts and paintings. The National Gallery's show to mark the centenary of the National Trust opens on Wednesday, with paintings from Trust houses including work by Titian, Andrea del Sarto (far right) and Rembrandt.

HUDDERSFIELD Since London's Almeida Festival dwindled away, the Huddersfield annual Contemporary Music Festival, which starts on Thursday, has become Britain's premier exhibit of new and recent work. Imaginative, far-sighted programmes all day long, with a big Luigi Nono retrospective this year; the best international performers, and the keenest audiences, and an infectious buzz.

ROTTERDAM Courtney Pine, one of the most dynamic of the new jazz generation, begins a European tour on Saturday at Rotterdam's Nighttown. Billed as a collaboration between jazz and hiphop, the show features the scintillating hard-bop piano of rising US star Cyrus Chestnut and two DJs at the mixing desk. The 13-date tour continues through Germany to Prague and on to the UK.

NEW YORK New York City Ballet starts its winter season at the State Theater tomorrow with a benefit performance of repertory works. From Friday, Balanchine's splendid "Nutcracker" plays until December 31: a helluva lot of snowflakes will fall during those six weeks. Thereafter, repertory: performance of 42 ballets will be on view until February 25. Here's riches.

AMSTERDAM Dutch decorative art of the period 1835 to 1895, known for its hybrid forms and Revivalist styles, has long been dismissed as "bad taste". In its winter exhibition, opening on Saturday, the Rijksmuseum offers a chance for re-assessment. Entitled "The Age of Ugliness", the show includes 180 examples of furniture, silver, glass, textiles and ceramics, with several masterpieces from the Dutch royal collection.

BERN On Sunday, Bern's municipal theatre stages the first production outside Germany of Berthold Goldschmidt's "Der gewaltige Hahnrei". The opera was premiered at Mannheim in 1932 and not seen again until last year, when it was triumphantly revived in Berlin. The 92-year old composer, born in Germany but a British national since 1947, will be travelling to Switzerland for the first night and several related events.

CHICAGO Since his appointment as principal guest conductor, Pierre Boulez's annual visits to the Chicago Symphony Orchestra have become a focal point of the city's music calendar. In his latest three-week residency, starting on Friday, he will conduct four programmes, ranging from such un-Boulezian territory as Skryabin and Richard Strauss to his French compatriots Varese, Messiaen and Ravel.

Mathis in mufti

David Murray reviews Hindemith's 1938 magnum opus

With deft timing, the Royal Opera's new *Mathis der Maler* – the first professional staging of Hindemith's 1938 *magnum opus* in Britain – opened last Thursday, the very day of the composer's own centenary. It had to be an event, and was clearly meant to be: the large cast thoughtfully chosen, a currently famous producer and a young conductor who is a rising star.

In the event it *was* an event, but for slightly unexpected reasons. Peter Sellars' production was almost reverent, in its small-scale way, making no mark of its own but starving the action of colour and breadth. Hindemith's score, as thrust home by Esa-Pekka Salonen and his excellent cast, was what compelled attention and admiration. Not all of the audience found that enough to sustain them through this 4-hour performance: there were discreet departures after part 1, and more after part 2.

Hindemith's "Mathis the painter" is the historical Matthias Grünewald, whose great Isenheim altarpiece is preserved now at Colmar. Writing his own libretto, the composer represented him as enmeshed in the Peasants' Revolt in Germany (1524-25) – a famous and significant episode there, if less so here.

Mathis is in the service of Cardinal Albrecht von Brandenburg, but after a year's sabbatical in retreat he joins the peasants' cause, for humane communitarian motives.

That goes sour for him when the killing becomes too much. He rejoins the cardinal's service without conviction, examines his conscience agonisedly, realises that his vocation as a superlative painter must take priority over his ineffectual social instincts, paints the teeming panels of his Isenheim altarpiece – darkly enriched by his grim experiences – and then packs his kit away, peacefully resigned to death. There are some sub-plots to enliven the affair.

The closest prompting for Hindemith's piece surely came from Hans Pfitzner's epic 1917 opera *Palestrina*, regularly performed in Germany but still awaiting a British staging, in which that virulently anti-modernist composer also identified himself with a great artist of old. Where Pfitzner, however, portrayed his "Palestrina" as a man who held fiercely to timeless musical truths, against philistine ecclesiastics on the Council of Trent, Hindemith's Mathis is trapped amid great political upheaval, between the high culture of the (Catholic) reigning class and the desperate needs of the (Lutheran) peasantry.

At Covent Garden we see hardly any of that. Except in the surtitles, the history is filleted out, reduced to token skirmishes. Everybody from the Cardinal down is dressed in modern mufti, mostly anonymous suits. George Tsypin's set, all scaffolding and glass, suggests no time or place; the choruses sit in their street clothes at either end of the stalls circle, removed from what little action there is.

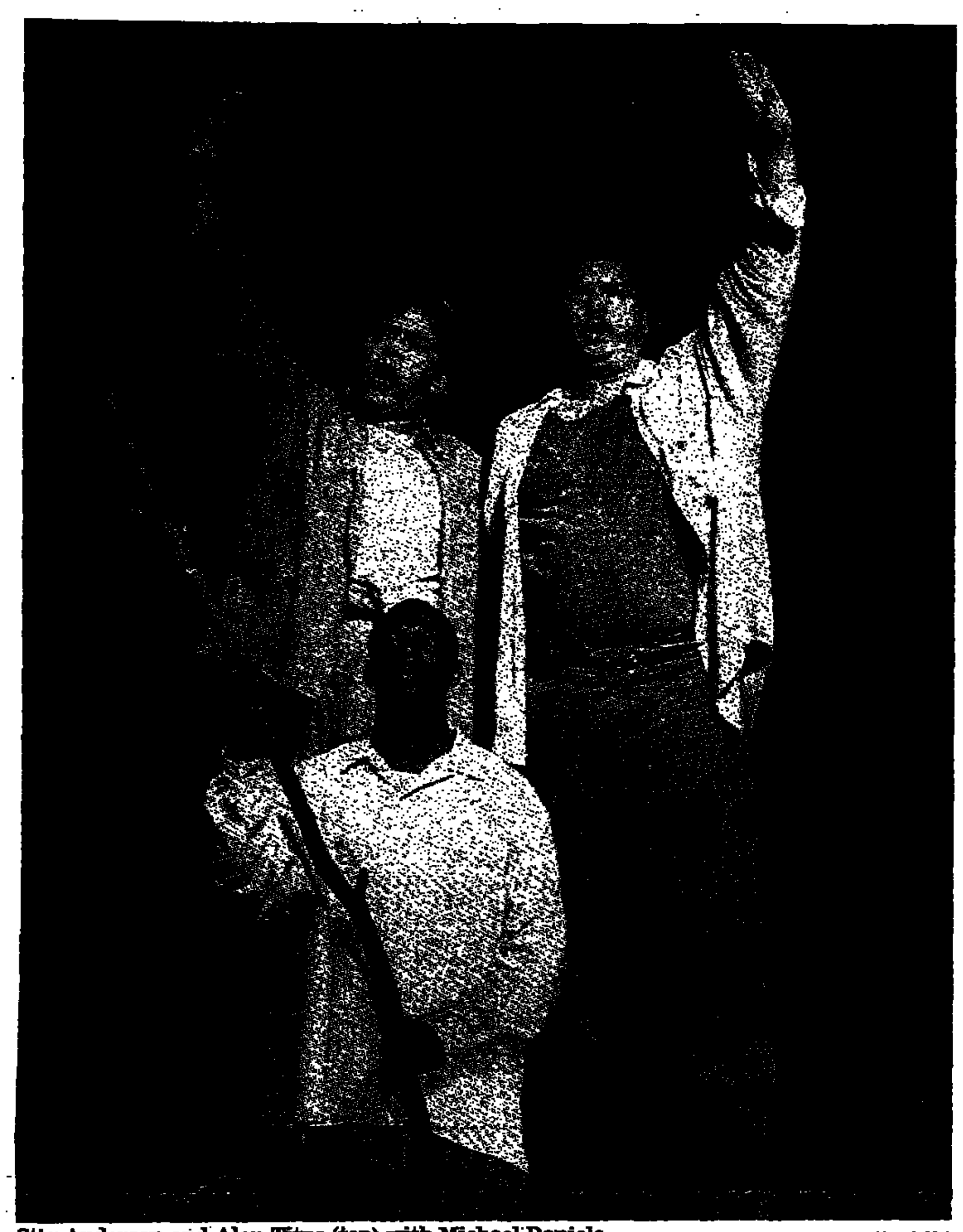
It is boring to watch, and frustrating because the sweep and energy of Hindemith's score predicate so much more. One could guess that Sellars would disdain the old-fashioned stage literalism Hindemith expected, but he has found no adequate substitute for it. The monstrous book-burning becomes a dull Guy Fawkes' Night bonfire; even Mathis's climactic dream, of himself as subjected to the temptations of St. Anthony, is just walked through. A silent black mime dogs Mathis's heels throughout being "expressive", an addition which is more embarrassing than helpful.

Still, there is the score, which Salonen expounds with fine vehemence. The baritone Alan Titus makes a brooding, anguished Mathis, and Stig Andersen a brightly anxious Cardinal (very stylishly sung). As Mathis's beloved Ursula, Inga Nielsen is warm and affecting; Christina Oelze brings lovely feeling and freshness to her unlucky Regina. There is a doughty peasant leader from Thomas Young, and assured character-sketches by Gwynne Howell, Peter Rose and Robin Leggate.

The solo arias are delivered with powerful conviction, and the ensembles are sometimes thrilling. The choruses at least *sound* good, in their detached locations.

Yet little of the music is really voice-led – much of it was completed for orchestra before the voice-parts were added; Hindemith's opera is of course about himself, and the whole score is at once a manifesto and a vindication of *his* music-making (denounced by the Nazis as "degenerate"). It is seriously impressive, and greatly worth hearing, especially at the specially reduced prices the Royal Opera offers for it. You just have to be prepared to eke out the exiguous staging with your imagination.

Supported by the Foundation for Sport and the Arts, in association with Rome Opera; further performances to 6 December



Stig Anderson and Alan Titus (top) with Michael Daniels

Alastair Muir

A labour of love

Martin Hoyle talks to Graham Vick, the opera director with a golden touch, about his latest project

His diary is full until November 1999, he has three new productions scheduled for 2000. Yet, says Graham Vick, "opera companies are essentially 19th-century institutions – dodgy, as we're about to change century again."

Vick is ideally placed to talk about opera production. His apparently golden touch is known at Glyndebourne, where he is in charge, Covent Garden and ENO; the New York Met and the Paris Bastille. Nearly half his future workload is in Italy, where he has a *Lucia* at the Florence Maggio Musicale and a Berio world premiere at La Scala in his sights. When we meet, however, he is absorbed in the revival of a reduced-size *Falstaff* calculated for school gyms, village halls, churches and outlying arts centres. The City of Birmingham Touring Opera is completing its first decade; and no high-powered operatic jetting around will deflect Vick from this labour of love.

The company's pocket *Ring* (two evenings' duration, a pocket by Wagnerian standards) confounded expectation with its success. Its sumptuous production of *Les Boréades* would have put metropolitan companies to shame had it been seen in London (as opposed to everywhere else in Britain). As in a game of consequences, Birmingham Music Theatre met English Touring Opera. The result was CBTO; and the world said bravo.

ETO was already Midland-based, at the University of Warwick. Birmingham agreed to generous funding, the Arts Council matched it. *Falstaff* was the first venture. "It never seemed a risk to me," says Vick. "Not an *artistic* risk." The composer Jonathan Dove did a masterly job of reducing the orchestration. "If the first steps are right, the ear adjusts. It happened with *The Ring*. People enter into what it is. You're immediately hearing what it is, not just some version."

Vick had cut his teeth on small companies like Scottish Opera's *Opera-Go-Round*. "I have a huge belief in live events, the immediacy of opera. I always felt they'd rather go tour *Ring* in a gym with an orchestra of 18 than watch it on video or listen to CDs. Live events are what CBTO is about. Every performance is a special event."

He is at pains to point out that there is no routine. "We don't have a repertory. This *Falstaff* is our first revival and I've no idea what I did eight years ago. I start on Monday with a new score." Sets and costumes are the same. "It was my first collaboration with Paul Brown who's since done *Mitridate* and *King Arthur*" – the visually striking Mozart and Purcell pieces provided Covent Garden with two of its greatest successes in recent years. The collaborators have worked together at Bologna and in New York, a far cry from the Kingston-on-Thames parish church where I first caught up with *Falstaff*.

I wonder whether they are not too busy, or big, for small-scale touring. "You mean, when the chips are down why bother?" he laughs. There follows a creed in which, he admits, missionary zeal leads to a "desire to preach, to share, to show off. When you feel people have responded, those are the most intensely satisfying moments I can remember having in my life. I don't feel that doing *Mahagonny* at the Bastille. There are other reasons to believe in my larger-scale work, but I wouldn't like to let go of encouraging audiences who have never been exposed to this kind of work to open their hearts to it. Sometimes it works, sometimes it doesn't."

Graham Vick at work on CBTO's 'Falstaff'

He recalls the community involvement in an opera on Silas *Marner* – "fundamental to what the theatre grew out of" – and reflects on CBTO's ethnically conscious projects, Asian music, *Africa Now* with a large number of schools. "There are problems you can't not address in Birmingham. Ethnicity is what the city is about, not in pockets like Brixton. And we have a good record as to the social breadth of the audience; more than half are from the lower income brackets."

Vick must be unique in being able to work at this level while directing at Glyndebourne, surely the epitome of what the decriers of opera would call elitism. He confesses that performer/audience immediacy is a less obvious element in Sussex, "though the new theatre helps", but proudly points to the institution's spin off, Glyndebourne Touring Opera. "Glyndebourne doesn't use a penny of taxpayers' money. The touring company is subsidised to an absurdly low level, so the hidden benefit of the privately-funded company is phenomenally high, almost as good as CBTO. I'm astonished at how low subsidies are and what is expected to be delivered."

This brings us naturally to comparisons; to Vick's conviction that the arts' cake is sliced in favour of London as opposed to the regions. "Scottish Opera now does something like a half of what it did when I joined it. Meanwhile Covent Garden and ENO flourish – all to the good; but none of them has had to cut back by 50 per cent. The capital is always shored up at the expense of those outside London."

I ask if he is pessimistic. He gazes out of the window for some time. "I'm not pessimistic by nature," he answers, and remarks that he has returned from staging *The Rake's Progress* in Japan "where it operates in a perfectly immaculate way in a cultural society, where the workface is polite, educated . . . I did *Mahagonny* in Paris, at the Bastille. There are some problems but there's enormous support in manpower, finance, in a magnificent new theatre. You cannot but notice how poverty-stricken your own country is. You end up fighting for rock-bottom chorus rehearsal requirements for a difficult 20th-century piece, *The Midsummer Marriage*, at Covent Garden. I remember the term 'brain drain' in my adolescence. I understand why they did it. The differential is shocking. At the New York Met you're never denied rehearsal conditions because of money . . . I see no prospect of work conditions getting better here. It's depressing."

There is one glimmer of hope. "Glyndebourne combines the enlightenment of the highly subsidised with private funding. Nowhere else in Britain offers that funding, so it continues to be the bench mark of working conditions and practices . . . And for me it represents the opportunity to do a series of productions on a home base. I was beginning to tire of endlessly going from large opera house to large opera house." He sighs. "I'm British. I love the Royal Opera House. I'm very attracted to the Coliseum. They're full of good people. The big issue is giving those people a chance to do their jobs well.

"It's a perpetual struggle. I compromise as much as the next man. It means a fairly stormy life. That's why it's a sheer pleasure to work in Birmingham with people I've collaborated with all around me. Technicians, costume people – they all share my enthusiasms and ideals. It means many of the daily battles of the large opera house don't exist. I decided to leave Scottish Opera when the managing director asked my agent to ask me to be less of an idealist." CBTO makes a good reply.

The City of Birmingham Touring Opera's production of Verdi's *Falstaff* opens on Wednesday.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Koninklijk Concertgebouworkest: with conductor Mariss Jansons and violinist Vadim Repin perform works by Schoenberg, Prokofiev, R. Strauss and Ravel; 8.15pm; Nov 23, 24

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal
Tel: 49-30-254880
● Haydn-Ensemble Berlin: with conductor Hansjörg Schellenberger and Wolfram Christ on viola perform works by Haydn, Mendelssohn, Hindemith and Prokofiev; 7.30pm; Nov 23
OPERA & OPERETTA
Komische Oper Tel: 49-30-202600
● *Il Trittico*: by Puccini. Conducted by Shao Chia Lu and performed by the Komische Oper; 7pm; Nov 22
Staatsoper unter den Linden
Tel: 49-30-2082861
● Die Meistersinger von Nürnberg: by Wagner. Conducted by Simone Young and performed by the Staatsoper unter den Linden. Soloists include John Tomlinson, Siegfried Vogel, Eike-Wilm Schulte, Antti Suhonen and Reiner Goldberg; 5pm; Nov 22

■ CLEVELAND

EXHIBITION
Cleveland Museum of Art
Tel: 1-216-421-7340
● Isamu Noguchi: Early Abstraction: this exhibition offers an examination of three sculptures on view through 20 related black-and-white gouaches, completed by Isamu Noguchi (1904-1988) following an apprenticeship with sculptor Constantin Brancusi in Paris in 1927. The drawings have not been seen publicly since Noguchi's return to New York in 1929; from Nov 22 to Jan 24

■ COPENHAGEN

OPERA & OPERETTA
Det Kongelige Teater
Tel: 45-33 14 10 02
● Il Barbiere di Siviglia: by Rossini. Conducted by Andrew Greenwood and performed by the Royal Danish Opera. Soloists include Guido Paevatalu, Joergen Ole Boerch and Inger Dam-Jensen; 8pm; Nov 22, 24, 28; Dec 1

■ HELSINKI

EXHIBITION
Ateneumin Taide Museo - Art Museum Tel: 358-0-173361
● Photographs by Hugo Simberg: exhibition of photographs made by painter/graphic artist Hugo Simberg (1873-1917) of his family estate, given to the museum by Tom Simberg; from Nov 21 to Jan 14
OPERA & OPERETTA
Opera House Tel: 358-0-403021
● Don Carlos: by Verdi. Conducted by Eri Klas and performed by the Finnish National Opera; 7pm; Nov 21, 24, 29; Dec 2

■ LAUSANNE

CONCERT
Salle du Métropole
Tel: 41-21-3122707
● Orchestre de Chambre de Lausanne: with conductor John Nelson and violinist Thomas Füri perform works by Berlioz, Saint-Saëns, Fauré and Gounod; 8pm; Nov 21

■ LONDON

AUCTION
Sothebys; Parke Bernet & Co.
Tel: 44-171-4938080
● The RSPB Collection of Tunnicliffe Watercolours: 114 paintings by post-war bird artist Charles Tunnicliffe from the collection of the Royal Society for the Protection of Birds; 2.30pm; Nov 22
CONCERT
Barbican Hall Tel: 44-171-6388891
● London Symphony Orchestra: with conductor Mstislav Rostropovich and 12-year-old pianist Helen Huang perform Beethoven's "Piano Concerto No.1" and Shostakovich's "Symphony No.10"; 7.30pm; Nov 22
Queen Elizabeth Hall
Tel: 44-171-9604242
● Cristina Ortiz: the pianist performs works by Gottschalk, Grieg, Albéniz, Debussy, Stenhammar, Ravel, Cadman and Villa-Lobos; 7.45pm; Nov 23
Royal Festival Hall
Tel: 44-171-9604242
● Philharmonia Orchestra: with conductor Djong Victorin Yu, the Philharmonia Chorus and cellist Andrew Shulman perform Tchaikovsky's "Romeo and Juliet Fantasy Overture" and "Rococo Variations", and Rachmaninov's "The Bells"; 7.30pm; Nov 21
EXHIBITION
Victoria & Albert Museum
Tel: 44-171-9388500
● The Peaceful Conquerors: Jain Art from India: Jainism is one of the three major religions to originate in India, along with Hinduism and Buddhism. This travelling exhibition will present examples of Indian sculpture and painting produced in the Jain tradition; from Nov 23 to Feb 18
OPERA & OPERETTA
Royal Opera House - Covent Garden Tel: 44-171-2401200
● Fedora: by Giordano. Conducted by Edward Downes and performed by The Royal Opera. Soloists include Maria Guleghina, Rosemary Joshua, Plácido Domingo and Maria Jagusz; 7.30pm; Nov 21, 24, 27, 29

■ NEW YORK

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● New York Philharmonic: with conductor Kurt Masur and violinist Maxim Vengerov perform Gluck's "Dance of the Blessed Spirits" from "Orfeo ed Euridice", Shostakovich's "Violin Concerto No.1" and Beethoven's "Symphony No.6 (Pastoral)"; 8pm; Nov 22, 24 (11am), 25

■ OTTAWA

JAZZ & BLUES
National Arts Centre
Tel: 1-613-996-5051
● Glenn Miller Orchestra: perform works by Glenn Miller; 8pm; Nov 21

■ PARIS

CONCERT
Salle Pleyel Tel: 33-1 45 61 53 00
● Orchestre de Paris: with conductor Yehudi Menuhin, soprano Anne-Marguerite Werster, tenor Ian Caley and bass Michel Brodard perform Haydn's "Symphony No.101 (Clock)" and work by Landowski; 8.30pm; Nov 22, 23
Théâtre du Châtelet
Tel: 33-1 40 28 28 40
● Baden-Badener Rundfunk Orchester: with conductor Michael Gielen, the Rundfunkchor Berlin, soprano Laura Alkin and bass John Bröcheler perform Schoenberg's "Die glückliche Hand" and "Die Jakobsleiter"; 8pm; Nov 21
OPERA & OPERETTA
L'Opéra de Paris Bastille
Tel: 33-1 44 73 13 99
● Tosca: by Puccini. Conducted by Seiji Ozawa and performed by the Opéra National de Paris. Soloists include Galina Gorchakova, Keith Olsen and Renato Bruson; 7.30pm; Nov 21, 23

■ STRASBOURG

JAZZ & BLUES
Palais de la Musique et des Congrès Tel: 33-88 37 67 67
● Herb Miller Orchestra and Singers: perform works by Glenn Miller; 8.30pm; Nov 22

■ STUTTGART

DANCE
Staatstheater Stuttgart
Tel: 49-711-221795
● Sleeping Beauty: by Tchaikovsky. A choreography by Haydée/Petipa, performed by the Stuttgart Ballet; 7pm; Nov 21
OPERA & OPERETTA
Staatstheater Stuttgart
Tel: 49-711-221795
● Il ritorno d'Ulisse in patria: by Monteverdi. Conducted by Alan Hacker and performed by the Oper Stuttgart. Soloists include Dagmar Pecková, Uta Graf, Michael Ebbecke and Toni Krämer; 7pm; Nov 22, 24

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● ORF-Symphonieorchester: with conductor Ingo Metzmacher and violinist Thomas Zehetmair perform works by Maderna, Hartmann and Ligeti; 7.30pm; Nov 21
OPERA & OPERETTA
Wiener Staatsoper
Tel: 43-1-514442960
● Le Nozze di Figaro: by Mozart. Conducted by Michael Schoenwandt and performed by the Wiener Staatsoper. Soloists include Adrianne Pieczonka, Juliane Banse and Jean-Luc Chaignaud; 7pm; Nov 22

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Midnight
Financial Times Business Tonight

COMMENT & ANALYSIS

Michael Prowse · America

Endangered species

Modern electronic technology could mean that the days of academics at higher-education institutions are numbered

The future for American professors – indeed for academics everywhere – looks bleak. I say this with a certain sadness because I have the greatest respect for academic ideals. But the plain truth is that they are selling a product that is ridiculously expensive and ill-suited to the needs of a rapidly changing economy.

You will probably have heard a lot about the unrestrained growth of US health-care costs. Well, academics are putting doctors to shame. The cost of college tuition has risen 174 per cent in the past decade. That is more than three times the increase in consumer prices, which rose by 55 per cent. The cost of tuition in a top private university is now about $20,000 a year. Since 1990, borrowing to pay for higher education has doubled and is now running at about $25bn a year.

This cost explosion is outrageous if you recall that prices are falling in most other information-based industries. Why is academia unable to control costs? Largely because it refuses to embrace technological change. Teaching is still organised in much the same way as in Plato's day. Thousands of lecturers stand in classrooms delivering lectures. Millions of students travel hundreds of miles so as to be physically present on campuses. Universities are still associated with particular buildings – libraries, lecture halls and dormitories.

In the age of the Internet none of this make sense. Most education – I would make an exception for performing arts – can now be enjoyed in the comfort of one's home via the computer screen, and at a fraction of the cost at which it is sold by the Harvards of this world. One academic can prepare and deliver a course to an unlimited number of students worldwide. And there is growing evidence that most cognitive skills can be learnt more effectively on screen than in the lecture hall. With interactive software and multimedia technology, courses can be tailored precisely to the needs of individuals – something impossible in the classroom.

Conventional universities seem absurdly outdated in another respect. They are still wedded to the idea that learning should precede employment, with the length and quality of education determining the quality of job subsequently enjoyed. This notion has been taken to an extreme in the US, where the minimum requirement for a good "professional" job is now a bachelor's degree plus a law degree, MBA or doctorate. Most able students now spend anything from six to 10 years earning paper diplomas before entering the job market. The financial burden, given the level of fees, is excruciating.

The notion that education must precede employment is vigorously attacked by Mr Lewis Perelman, president of the Kanbrain Institute in Washington and author of a visionary 1992 book, *School's Out* (published by William Morrow, New York), which predicts the demise of conventional education. The word "kanbrain" is taken from *kanban*, the Japanese term for the "just-in-time" inventory management techniques that have revolutionised factory production. Mr Perelman argues that modern electronic technology has made just-in-time knowledge eminently feasible.

The old approach was to start life by trying to accumulate as large a stockpile of knowledge as possible. Hence the years of toil in the groves of academe. But in a rapidly changing world this is inefficient. We do not know if what we have learnt will be relevant. And in any case our knowledge decays over time. The better strategy is to wait until we need particular knowledge or skills and then obtain them electronically. A switch to "just-in-time" learning would transform the pattern of our lives. Talented people would not spend years preparing for employment. They would begin work early – perhaps in their mid-teens – but continue learning, on the just-in-time principle, throughout their lives.

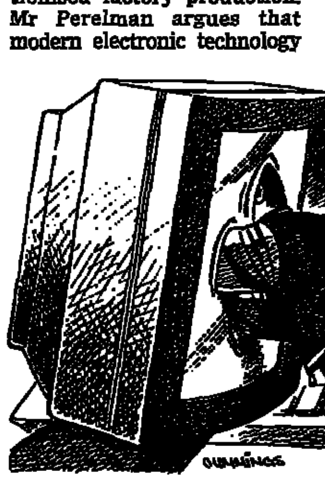
In such a world "going to college" would cease to be part of the American dream. *Electronic college* would be available for everyone all the time. But the courses would probably not be supplied by heavily subsidised, non-profit institutions such as today's universities. A true market would develop, with commercial "learning companies" competing for the custom of people of all ages and talents. Electronic education, as Mr Perelman argues, is likely to be a highly profitable business for companies in the information business – a far bigger money spinner than, say, home banking.

What is to stop companies such as Microsoft, the Seattle software giant, entering the higher education market immediately and providing screen-based education at a fraction of the current cost? There are two main obstacles. The first is that educators form a kind of closed shop: the accreditation committees that determine what counts as a *bona fide* university will fight to protect the market of existing institutions, just as unions fight to protect jobs in declining industries.

The other obstacle is the attitude of employers. People pay enormous sums for higher degrees, not because they cannot obtain the knowledge elsewhere, but to give themselves an edge in hyper-competitive labour markets. Higher degrees serve a function akin to that of the exotic plumage of birds: they are primarily a means of attracting attention, of signalling that you deserve special attention.

Yet simple tests of cognitive ability can be administered in less than 30 minutes. Such tests, which can be tailored to the needs of particular companies, are a better guide to job performance than academic degrees. If employers were willing to hire on the basis of competence to do a particular task, rather than paper credentials, a shift to cheaper and more convenient electronic education could occur quite rapidly.

Technology, in the end, has a habit of proving decisive. The horse and buggy was a fine means of transport in its day. Yet it was swept away by the motor car. In due course, just-in-time electronic education, delivered to your living room by commercial companies, will undermine the most hallowed names in higher education.



LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com. Translation may be available for letters written in the main international languages.

Waigel's plan for EU fines is on the right track

From Mr Stephen King.

Sir, You are right to note in your editorial "Waigel's Emu conditions" (November 14) that German finance minister Theo Waigel is preaching to a sceptical German public. You are, however, too dismissive of the German public's continued concerns over monetary union.

You justify your dislike of fines by showing their possible effect on the UK and France in the early 1990s, when both countries saw budget deficits in excess of 6 per cent of gross domestic product.

However, if fines had been in existence then, both countries would have had a stronger incentive to keep their public finances in order. Germany has a reasonable concern here: its budget deficit peaked at just 3.3 per cent in 1993 despite the pressure of reunification.

A "no bail-out" clause may be preferable to fines *if* it is credible but, in reality, there must be doubts. Imagine a situation where a country is close to defaulting on its debt. A European central bank whose sole concern is price stability might be happy to allow the default to happen. But, in the real world, central banks also operate as lenders of last resort.

On this basis, a financial implosion in any one country which carries risks for Europe as a whole would not be allowed to happen. If this argument is accepted, the "no bail-out" clause begins to look rather feeble.

Contrary to your arguments, Mr Waigel's proposals *do* allow scope for fiscal flexibility. If the aim is to keep budget deficits at about 1 per cent of GDP, there would be room for deviations of, say, 2 per cent of GDP on either side. For most of the 1980s, Germany, France and the UK easily met this target range. Is this really the "tight control" of fiscal deficits that you deem unnecessary?

Moreover, although there is no obvious linkage between monetary stability and fiscal deficits, a linkage still exists. For example, real long-term interest rates in Europe will surely be influenced by the monetary-fiscal mix. Any attempt by a European central bank to offset fiscal profligacy through monetary discipline could easily see a repeat at the European level of the pain of *franc fort*.

The imposition of fines may not be the ideal. But Mr Waigel's proposals emphasise that the balance between monetary and fiscal policy is a real issue which, as yet, has not been fully resolved.

Stephen King,
deputy chief economist,
James Capel & Co,
Thames Exchange,
10 Queen Street Place,
London EC4R 1BL, UK

Why Italy must rewrite its constitution

From Mr Piero Sierra.

Sir, I congratulate you on publishing Mr Sergio Romano's article entitled "The real losers in Italy" (Europa, October 31). Having been in business for several years in Italy as chief operating officer and board director of a leading Italian corporation, I have developed views of the complicated political context of Italy which largely coincide with Mr Romano's.

However, one should emphasise that the problems of harnessing the existing forces at play are inextricably linked with a structural flaw of the system which has its origin in the constitution.

The constitution of 1946 was devised in such a way as to prevent an authoritarian revival. It gave all powers to parliament, which in turn voted proportional electoral laws ensuring automatic survival of a multitude of parties, led by self-perpetuating power structures.

Over the years, however, its weaknesses emerged, in the form of executive paralysis, corruption, a stream of ill-conceived legislative compromises, and vacuum-filling takeovers by a variety of power groups, including government and state-owned bureaucracies, tightly knit big business, unions and many others.

It is obvious that we have the wrong system for the social, political and cultural context. The gearing mechanism between the voters and government activity is permanently jammed. All we can expect from the current tinkering is more of the same: ideological balkanisation, proliferation of parties, musical-chair coalitions, a string of political betrayals, temporary governments and a steady loss of infrastructural competitiveness.

The solution exists but is difficult to implement: do not try to fix parliament; redefine its powers and let it exercise them in its own ways. Meanwhile, give balanced powers to a strong executive branch led by an executive directly elected by the people, in a two-turn election, with a four- or five-year stable mandate. It is not too late to achieve the required constitutional changes through an agreement of the two current major parties. They are opposed ideologically, but in the long run each stands to benefit from the strengthening of bipolarism.

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Facility offers a lifeline

From Dr Raymond Gilpin.

Sir, I refer to Robert Chote's Economics Notebook (October 30). His choice of a single country and single critic to assess the International Monetary Fund's enhanced *structural adjustment facility* (ESAF) programme overly simplifies a very complex issue, and may be misleading. A more instructive (and perhaps more intriguing) line of inquiry would have been to discuss why sub-Saharan African (SSA) countries use the ESAF, and whether it serves its purpose.

Weak macro-economic structures in SSA make budgetary support necessary during economic recovery. In this vein they have a limited menu of options:
a) unfavourable barter terms of trade rule out domestic financing; (b) commercial loans are too expensive; and (c) bilateral and multilateral funding for SSA is drying up. The ESAF provides a lifeline in these desperate circumstances.

Assessing the impact of ESAF programmes is fraught with practical, empirical and conceptual difficulties; not least among which is the fact that its provisions differ from country to country.

However, two salient thoughts must engage our minds: first, is this the most effective and efficient path to economic recovery; and second, would SSA countries reap the benefits of ESAF given the current global trade environment (where the costs of goods and technology are geometrically higher than those of SSA exports)?

Raymond Gilpin,
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Freetown,
Sierre Leone

TV watchdogs everywhere

From Mr Anthony Mayer.

Sir, Christopher Dunkley (Television, November 15) laments the excessive number of watchdogs looking after the content of television broadcasting in the UK which, he claims, behave like a nanny for an audience of big babies.

Yet, with a mostly advisory capacity, review groups can also serve to generate healthy discussions over broadcasting content and style. Equivalent watchdogs exist throughout continental Europe in the form of official or semi-official public review bodies, even if they are less often denounced than in the UK, while a US counterpart is provided in the self-censorship of editorial boards, or programming committees subject to politically correct and audience-maximising demands (while minimising controversies or litigation).

As for sexually explicit material on the air, the country that launched the mini-skirt and the (1970s) advertisement of the pregnant man should not be too scared at the thought that some of the public may still, rightly or wrongly, want protection from an automatic exposure to the lowest common denominator. Broadly speaking, there is no such thing as pure freedom in this sense; for instance, child pornography is near universally banned, while sexually permissive Sweden restricted Spielberg's film *ET* to audiences above age 13 – because of the children's foul language and the offensive image of a bungling adult world.

In short, it is a subjective notion as to where to draw the line and who is entitled to draw it – but not a simple all-or-nothing principle.

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Company attitudes too casual

From Ms M.R. Pike.

Sir, I have had several dealings with UK companies recently and have been left feeling dissatisfied after each encounter. The final disenchantment occurred when I called two Dutch and two British companies asking for product information. Representatives from all four said that someone would contact me the following day and, indeed, by 10am the following day both Dutch companies had called. Seven days later I was still waiting to hear from the British.

Does Mr Michael Heseltine, the deputy prime minister, seriously believe that Britain can be a centre for European enterprise when British companies take such casual attitudes to prospective customers?

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Samuel Brittan

Illusion of budget control

The main surprise in next week's UK Budget is pretty well known by now. The chancellor will announce "tax cuts". These will appear to be financed by cuts in intended spending. Despite the borrowing overrun in this financial year, the budget deficit will seem to be on a declining path. There will be something in it for all wings of the Tory party and for rich, poor and middle class alike. All that will be left is for the financial markets to applaud and interest rates to come down soon afterwards.

Alas, I am afraid that this will turn out to be one of those Budgets which go down well on the day, at least with the faithful, and bear less and less inspection as time goes on. It goes without saying that the so-called public spending cuts will need to be examined with a magnifying glass.

Because there will be so much that may not bear examination, it is all the more important to avoid bogus debating points. One example would be to censure the government merely for reducing the contingency reserve of £6bn ($9.3bn) for 1996-97 pencilled into its medium-term projections. It is normal to have a large reserve for a distant year and to reduce its size as that year gets nearer. What we will need to look for in the small print is anything like an unusually large reduction in the size of the reserve to less than £3bn, or a widening in the purposes for which it can be used.

There will also be arguments about how to allow for inflation. There is no unique measure. The government is accustomed to comparing the rise in public spending in cash terms with the gross domestic product deflator, which is a rough measure of domestic costs.

When the spending estimates for the present financial year, 1995-96, were first set out in the last Budget, the GDP deflator was expected to rise by 3¼ per cent – about the same as the total rise in spending and more than the rise in the control total. It so happens, however, that the GDP deflator is coming in well below forecast – probably because it has yet to feel the impact of higher import prices. An increase in the deflator of 1½ per cent is a reasonable guess before today's national income estimates.

So critics will be able to say that once again there has been an increase in public spending and that the government is unable to cut it or even hold it in real terms except in emergencies, such as when the International Monetary Fund intervened in 1976.

> Claims by the government to have cut its spending will have to be examined under a powerful microscope after the Budget

The reality, however, may be rather different. For the GDP deflator may not be at present a good guide to government costs. Social security payments are adjusted by the headline retail prices index, which has risen a good deal more. So, too, have the direct costs of government purchases. It might be tempting for the Treasury to invent a new measure of government costs to defuse, or confuse, the issue.

More penetrating criticism is made of fiscal strategy in a paper by Professor Nick Bosanquet, *Public Spending into the Millennium*, just published by the Social Market Foundation (£10). The author argues against the "illusion" that public spending is under control.

A glance at the track record helps. General government expenditure was expected by the Treasury last summer to be running this year at 41¾ per cent of GDP. But it was originally projected to be around 39¾ per cent of GDP as long ago as 1992-93 and to be on a declining path – the opposite of what occurred. The 39 per cent goal has been pushed back beyond the horizon.

Of course the recession helps to explain the spending bulge of the early 1990s. But Bosanquet points out that it is not only supposedly cyclical spending, such as unemployment benefits, which increase in recessions. Expenditure control slackens across the board and it is very difficult to retrench afterwards. Bosanquet reckons that in the next recession the public spending ratio could easily rise to the 45 per cent level seen under Labour and in the early 1980s.

A less obvious expansionary force is that of the private finance initiative for drawing private sector funds into infrastructure projects. This creates a pressure group for higher spending in the heart of the corporate sector itself. Another surprising source of expansion comes from the very improvements in the public services and the user-friendly attitudes promoted by the Citizen's Charter. These are boosting public demands on health and education.

There are computations which suggest that tax increases on the poor are more than balanced by the progressive nature of welfare spending, which is worth more to the poor as a proportion of income. But here, Bosanquet, who has been specialising in health economics, is suspicious. For if poor people take so much and receive so much from the state, they do not have a good deal of scope to take initiatives on their own or in conjunction with the public services. Bosanquet – who has in the past written very eloquently against New Right economics – is afraid that state dependency will start creeping up again and that the Thatcher years will turn out to have been a temporary plateau.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Monday November 20 1995

The Chinese challenge

China's announcement yesterday of important steps to liberalise trade and foreign investment is more than a move towards further integration into the world economy. It also demonstrates the leadership's capacities and intentions. Further growth and reform seem almost certain. If managing this process is a challenge for its leadership, adjusting to it is quite as daunting for the world at large.

Today's survey in the Financial Times shows why China's leadership has grown palpably more confident over the last year. It has already weathered the first storms of the post-Deng era.

Chief of these was cooling the overheated economy. After Deng Xiaoping's journey to the south in 1992, real gross domestic product expanded at the extraordinary rates of 13.6 per cent that year and 13.4 per cent in 1993. Inflation's rise towards the 21.7 per cent reached in 1994 showed the economy was overheating. The response was the package of measures introduced in mid-1993. These have worked: overall inflation should be below the target of 15 per cent this year; and non-food inflation has disappeared. Meanwhile, economic growth slowed, but merely to 11.8 in 1994 and perhaps 10 per cent this year.

Mr Zhu Rongji, the executive vice-premier in charge of the economy, has reason to feel pleased. Wisely, he refuses to show overconfidence. He knows how easily China's semi-reformed economy – with its tens of thousands of bankruptcy-proof state-owned enterprises, loss-burdened financial system and revenue-starved government – could slip the leash.

Market-led growth

Yet, for all the difficulties, it would be wiser to bet on continued rapid growth than on the reverse. The Communist party's future rests on successful market-led economic growth. It may attempt to influence the pattern of development, but will not – probably cannot – halt it.

If the leadership fears failure, how much more does the rest of the world fear success. It will transform everything. From that reality there can be no escape. The only question is how to respond.

In trade, China's challenge is obvious. Already the world's 10th largest trading country, China might be fourth by 2000. Foreign exchange reserves have risen from less than $20bn in mid-1993 to $72.9bn at the end of October.

The immediate issue is how to complete China's long drawn-out negotiations for membership of the World Trade Organisation. There are huge potential benefits to success. Not only would China be involved in – and responsible for – the trading system. It would also have to accept significant legal and administrative obligations. Chinese reformers should see such requirements as an invaluable weapon in their own hand. So should outsiders.

Difficulties arise

This, however, is the long-run view. In the short term, difficulties arise over many issues. It is not just difficult to reach agreement; partners fear that agreements would not be enforced. Western music publishers argue, for example, that piracy remains rife, notwithstanding the agreement on copyright reached between the US and China early this year.

Yet if the world decides to wait until China has become a modern, law-based state, it may not be in the WTO for years. That would be foolish. What must be done, instead, is to agree on the standards China should reach, along with a timetable. Yesterday's announcement of a sharp cut in tariffs, and elimination of many import quotas, is a first step. Further liberalisation will be required, including in its markets for services.

China is indeed a developing country, as its government argues, but one unlike any other. It must offer more liberalisation and more self-discipline than the others, because it is potentially more disruptive. But it cannot be asked to show greater respect for WTO principles than its major partners have ever managed themselves. Any special safeguard mechanism against its exports must be kept to a limited transitional period. China must join the WTO soon. It is more important that it be inside the organisation, than for its partners to preserve a theoretical right to treat it as they wish.

Powerful case for referral

Ministers will soon decide whether to refer the two most controversial bids in the electricity sector to the Monopolies and Mergers Commission. They should have no hesitation in doing so. If they reject a referral, it will not only jeopardise the goals of the electricity privatisation, but will also suggest that the government has little commitment to developing the vigorous competition policy the UK needs.

Electricity influences the price of almost every product in the country and every person's cost of living. Of the recent takeover bids for regional companies, those by PowerGen and National Power, the generators, for Midland Electricity and Southern Electric, pose particular concerns. They would leave the generators – which own much of the capacity that determines prices in the wholesale market ("the pool") – in control of a slice of distribution and supply. Distribution – control of the wires to customers' premises – is a natural monopoly, while the retail business of supply remains a regional monopoly until 1998.

Such vertical integration threatens the aims of privatisation: to stimulate competition in generation and supply, while enabling distribution to be regulated. This model was intended to encourage efficient use of generating and transmission capacity, and to pass the benefits to consumers.

One worry is that generators will use the captive market of their supplier to raise prices. Second, integration could undermine competition in the pool, as generators would have a guaranteed market for more of their output, and would have less surplus to sell in the pool. Third, they might inhibit rival suppliers by charging too much for access to distribution, or by declining to hedge supply contracts, leaving suppliers vulnerable to swings in demand.

Contentious issue

There are counter arguments, voiced loudly by the generators and others opposed to an MMC referral. They assert that distribution can be ring-fenced adequately for the regulator's needs. This is unconvincing, as evidence of other regulated utilities shows: the terms of access to a monopoly network remain the single most contentious issue. Determining the true costs of the monopoly business remains problematic; companies have every incentive to allocate costs to the regulated part, where they can be passed on to customers, rather than to the business which faces competition.

Premature argument

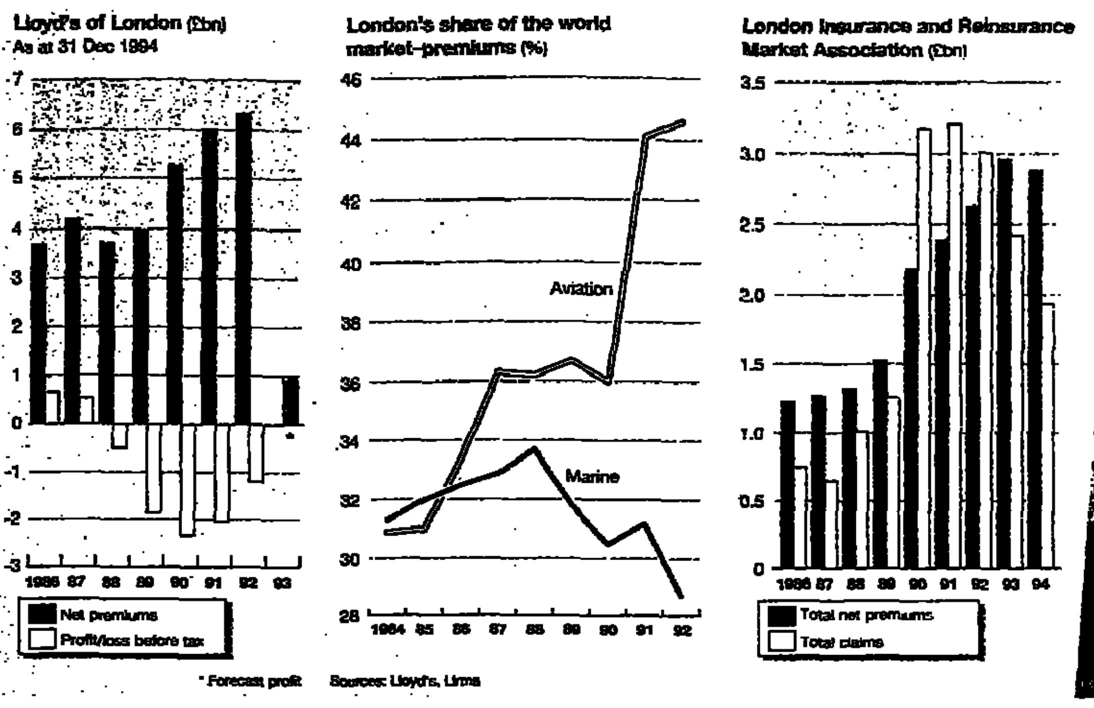
A second counter argument is that competition in supply can be a substitute for any loss of competition in the wholesale market. However, at best, that argument is premature. Competition in supply will not exist at all for several years, and may then take years to develop, as a House of Commons select committee has warned.

Moreover, there are questions about whether competition in supply could ever, even in theory, be a substitute for competition in the pool. The pricing of electricity is enormously complex, given that it cannot be stored and that demand fluctuates greatly during the day and between seasons. The pool allows the price to change frequently to reflect those factors, and encourages efficient use of generating capacity. Given the relatively crude technology of delivering electricity to customers and informing them about prices, it is hard to see how customers could be as flexible in their purchasing decisions as this position requires.

A third counter argument is by far the worst: that it would open the way for a foreign takeover of Midlands or Southern while the MMC was deliberating on the original bids. If ministers find that attractive, they are putting political expediency above the long-term interests of consumers.

Despite months of debate, these concerns remain unanswered. To ignore them would be negligent; to put them aside for fear of political controversy would be reprehensible. Moreover, if such a strong case for referral to the UK's competition authorities is ignored, it is hard to see what event could warrant that move. It would be hard to believe that the government had any serious intention of fostering the vigorous competition policy which the public and businesses require.

London insurance market: facing a global challenge



* Forecast profit Sources: Lloyd's, Lirma

Insurers in a risky position

The City of London's dominance of the world insurance market is under threat from centres in other countries and from electronic networks, says Ralph Atkins

Lloyd's of London was back in the headlines last week, with the abrupt resignation of Mr Peter Middleton, its chief executive. Not for the first time, the longer-term issues that confront Lloyd's and the rest of the London insurance market were obscured by speculation about personality clashes and the continuing agonies of the Names, the 300-year-old institution's investors.

The London market's position as the dominant world insurance centre is under threat with aggressive competition from overseas eroding earnings and business volumes. At the same time, electronic networks threaten to erode the advantages of a presence in London by making it easier for policies to be sold around the world via computer screens.

"London always used to feel it had a divine right to business. It doesn't," says Mr Tony Funnell, chief executive of the Institute of London Underwriters. "The global markets are just as easily available at the end of a fax machine or whatever communications are used."

For more than three centuries, the London insurance market has sheltered commercial policyholders around the world from disasters, crime and other perils. The close proximity of several thousand underwriters and brokers in the City has made the London market an important part of the UK financial services industry.

At its centre is Lloyd's, where 170 insurance syndicates offer policies covering risks from pianists' fingers to oil rigs. In addition, more than 100 insurance companies also operate in the market, many of them offshoots of international insurers.

Brokers who generate business from around the world spread the risk with several Lloyd's syndicates or insurance companies. Each insurer may take, perhaps, a 5 per cent share – generally a much smaller share than insurers take elsewhere in the world.

The advantage of such a "subscription market" is that big risks – North Sea oil rigs or a fleet of ships – which no single insurer could underwrite alone can be covered quickly and easily. But the subscription approach creates a fragmented structure that involves costly duplication. Complex and detailed information is circulated among many parties, with information often having to be rekeyed into different computers.

That problem is exacerbated by having three trade organisations, all with different histories, rules and practices. Lloyd's, for instance, has its own system of regulation. The Institute of London Underwriters, dating from the 1880s, also sets financial standards for its members. Lirma – the London Insurance and Reinsurance Market Association – is a less formal trade body for reinsurers and non-marine insurers.

An unpublished report by Coopers & Lybrand, the consultants, estimates that £300m ($467m) a year of annual processing and £1bn of administration costs could be saved by creating a marketwide organisation and using technology more effectively. But rivalries between the main organisations are preventing the merger talks needed to create the streamlined structure that the Coopers & Lybrand report hints is required.

As Mr Philip Marcell, Lirma chairman, says: "There is a limit to how much you want to get into bed with others when you want to be better than them." Even joint marketing initiatives are difficult; offshoots of foreign insurers have little incentive to see London promoted at the expense of their parents.

Higher costs make it harder for London to do well as premium rates are driven lower by competition. In the past few years, Bermuda has attracted large chunks of catastrophe reinsurance – providing insurers with protection against big losses when natural disasters strike. France is attracting aviation business; marine and energy business is also being poached.

Another drawback of a subscription market is its heavy reliance on brokers to supply business. Consolidation in the world insurance broking industry is creating larger, geographically spread businesses that may be less likely to turn automatically to London.

The impact of London's structural weaknesses is hard to gauge. Premium volumes held steady at about £12bn in 1992 and 1993, the latest years for which comprehensive data are available. But other evidence points to a subsequent decline; the level of business at Lloyd's, for instance, has fallen this year to its lowest since 1990.

Overseas insurers continue to open for business in London. Liberty Mutual, the US financial services company, is seeking UK government approval for a new reinsurance venture expected to involve more than £100m in capital. Mid-Ocean, the Bermuda-based reinsurer, is setting up a London branch to attract business it cannot win at home.

But many insurers have pulled out. About 40 per cent of participants in the non-Lloyd's part of the market have withdrawn over the past decade. Commercial Union, the largest UK-based composite insurer, said this summer it was all but pulling out of the London non-marine reinsurance market because its small operation was unprofitable.

Whether others follow will depend heavily on London's attempts to use technology to cut the costs of subscription underwriting. Computer systems expected to be fully operational in the London market from next summer could transfer much of the market's business on to an electronic network.

In theory, "electronic placing support" would replace the traditional face-to-face dealings between brokers and underwriters which have been taking place at Lloyd's since its foundation in a coffee house. If this stage took place via electronic networks, it would pave the way for a dramatic streamlining of insurance policy administration, premium collection and claims settlement. As Mr Dieter Losse, chairman of the London Insurance Market Network, says: "All transactions stem from the deal."

The most important consequence will be a steep fall in costs as labour-intensive tasks involved in handling large volumes of information are streamlined. A further reduction in the estimated 60,000 people employed by the London insurance market is inevitable.

Mr Dennis Mahoney, deputy chairman of Alexander Howden, part of US-based broker Alexander & Alexander, reckons the £300m cost savings identified by Coopers & Lybrand are an understatement. "If I could show every Lloyd's underwriter the same risk in one second and all they have to do is press 'Yes' or 'No', that would save us unbelievable amounts of money."

But in the longer term, technology could further undermine London's competitive advantage. In the past month, the world's six largest insurance brokers have announced details of a World Insurance Network which should allow insurance companies to do business worldwide largely via computer screens. Such systems already operate in stockbroking and banking, but have been slower to come in for commercial insurance which involves dealing with complex contracts accompanied by piles of documentation.

If the new network is successful, the traditional London broker, footslogging the City with bulging leather files, could be replaced by electronic messages and data flying at the speed of light to Munich, Paris, the US – or fast-growing insurance companies in the tax haven of Bermuda.

Moreover, electronic networks may lead insurers to question whether they need to be physically located in London. European Union laws introduced last year allow insurers in one member state to carry out business in another on the basis of regulation in their home country. Once electronic systems are in place, an insurer in, say, Rome could underwrite business on the London market via a computer terminal in Italy.

Such a world is some years off. It is unclear yet whether any electronic system can provide a flexible system capable of mimicking the complex interactions between underwriters, brokers and clients. The complexity of commercial policies – and the importance of the services of specialist bankers, lawyers and accountants to service clients' needs – will ensure London remains an important international insurance centre.

"I don't think the technology exists to develop a system which could take over face-to-face negotiations," says Mr Stephen Riley, chief executive of Swiss Re (UK), part of the Zurich-based reinsurance group. "Next summer is not some kind of 'Big Bang' date where the lights go out at the Stock Exchange and everyone is looking at flickering screen."

Others such as Mr Philip Marcell, Lirma chairman, argue the London subscription market still has a strong and unique attraction for clients "because they are provided with a tailor-made service".

But in a fiercely competitive world market, such strengths will be no substitute for cost reductions. London's challenge is to cut its expenses, build economies of scale, improve its image – while retaining its importance as an insurance centre in the minds of buyers.

The main London insurance market bodies

Lloyd's of London – not an insurance company but a market in which syndicates underwrite a range of risks from private motor cars to oil rigs. Capital is supplied by individuals known as Names, and increasingly by corporate investors trading with limited liability.

The Institute of London Underwriters – a trade association for companies writing marine, aviation and transport business. Dating from the 1880s, it produces standard policy clauses for use by marine underwriters in London in drawing up policies. Many members operate from the ILU building in the City.

The London Insurance and Reinsurance Market Association (Lirma) – represents reinsurance and non-marine insurance companies. Many of its members also belong to the ILU and the two organisations share policy processing and claims facilities. Many Lirma companies are based at the London Underwriting Centre, near the Lloyd's building.

The London Insurance Market Network (Limnet) – a computer system that processes administration of insurance policies. Set up by the market's main trade organisations, it is used for notifying and settling claims on policies.

Plans to develop a fully working system of "electronic placing support" would allow a broker to circulate details of a risk to underwriters who would be able to accept or decline via a computer.

· OBSERVER ·

Emu – the stage play

■ A hitherto neglected question has arisen in the debate about the monetary intricacies and political implications of European monetary union. Which bit of Shakespeare would best capture the drama of monetary union?

The issue split top bankers discussing Emu in Frankfurt's elegant Alte Oper concert hall last Friday. Deutsche Bank's Hilmar Kopper plumped for *All's Well that Ends Well*. National Westminster Bank's Lord Alexander – a governor of the Royal Shakespeare Company – preferred Hamlet's line: "To be, or not to be: that is the question." True, Britain is likely to be an initial spectator rather than participant, but Lord A's pussy-footing response adds to the impression that he is setting himself up as governor-in-waiting of the Bank of England by ducking any awkward questions.

Fortunately, the irrepressible Viscount Etienne Davignon, former European industry commissioner and now chairman of Belgium's Société Générale, is one banker who says what he thinks. He is an Emu man through and through, and thought that all this talk about delays was *Much Ado About Nothing*.

If Emu fails, its proponents can turn to *Love's Labour's Lost* for solace, although *A Midsummer Night's Dream* or *A Comedy of Errors* might be more apposite.

Chile start

■ Poor old Salman Rushdie. The British author who was condemned to death by Iran for his book *Satanic Verses* had planned to visit Chile last week as part of his campaign to return to normal life.

However, he ended up spending most of his time as a guest of the Chilean police. They whisked him off the plane when he landed on Thursday morning, helicoptered him to a "safe house", and kept him incommunicado for several hours.

Only after strong representations from Frank Wheeler, the British ambassador, was Rushdie allowed out to dine at the embassy residence, whereupon he spent most of his time venting his wrath on Chile's deputy foreign minister, Mariano Fernandez, rather than promoting his latest book; *The Moor's Last Sigh*.

Saintly interest

■ International banks have conquered most corners of the globe but there are still a few markets left to capture. Indeed, Observer hears that competition is hotting up to serve what must be the world's smallest banking market – the 5,600 inhabitants of St Helena, an island halfway between Africa and South America.

The island, which has neither harbour nor airport, is best known as the place where Napoleon Bonaparte died in 1821. Apart from a bit of fishing, there is not much going on there. The Bank of Nova Scotia, the most international of Canada's big banks, has applied for a licence but understands that it is facing competition from an unknown British bank. HSBC, Barclays and Standard Chartered have all said they are not interested and the Bank of England says that it has nothing to do with handing out banking licences in the South Atlantic.

Given that there are no plans to turn St Helena into a money-making tax haven, Observer cannot think of any good reason why a bank would want to open in St Helena. Perhaps the lucky winner will set the record straight.

Statutory limit

■ An impressive statue of General Charles de Gaulle is to be unveiled at Les Invalides in central Paris on Wednesday, 25 years after the death of France's national hero. Next Wednesday, as any good Gaullist knows, is the anniversary of the great man's birth in 1890.

Only one problem. The sculptress is that well-known, er, British artist Angela Connor. What is more, the sculpture is a copy of an earlier version which has been sitting in central London for the past two years. Le Général, not renowned for his love of the British, must be turning in his grave, if not pirouetting on his pedestal.

Not so Jordan's King Hussein. He's just had a 9-ton copper statue of himself removed, hours before it was due to be unveiled. Depicting a smiling Hussein, wearing traditional Arab head dress and waving his right hand, the statue was a birthday present from the grateful people of Amman. It would have been Jordan's first.

The king, one of the world's smaller rulers, has rightly sensed that now may not be the right time to unveil a 39ft replica of himself. No doubt the £28,000 *objet d'art* will be brought out of long-term storage when its subject is no longer around to complain.

Price fighter

■ Germany's Social Democrats finally seem to be coming to terms with the principles of the market economy. Hours after the surprise election of Oskar Lafontaine as the SPD's leader last week, local party branches reported that people were streaming in to sign up as party members.

So what was the first thing the SPD did? Raise membership fees by 7 per cent, or more than three times the rate of inflation in Germany.

The Financial Times

100 years ago

The Pacific cable
The Pacific cable has advanced another stage. The Colonial representatives have agreed to the formation of a Commission to consider and report upon the subject, so that one day we may expect to have telegraphic communication with Australia which shall pass entirely through British territory. There can be no doubt of the utility and strategic importance of the scheme, and ultimate success from a money point of view is quite possible.

50 years ago

More nationalisation
Electricity, gas, inland transport and dock and harbour undertakings are to be nationalised, in addition to coal, civil aviation and telecommunication, as already announced. Mr. Herbert Morrison, Leader of the House of Commons, further outlining the Government plans in the House yesterday, told the House that it was not the intention of the Government to nationalise shipping. "In regard to inland transport, powers will be taken to bring under national ownership the railways, canals and long-distance road haulage services."

FINANCIAL TIMES

Monday November 20 1995

Islamic groups claim responsibility for suicide attack in Pakistan

14 die in Egyptian embassy bombing

By Farhan Bokhari in Islamabad and James Whittington in Cairo

Pakistani rescuers carry a body from the bombed Egyptian embassy in Islamabad. The intensity of the explosion shook large parts of the city and caused widespread damage *Photograph: Reuter*

A suicide car bomber blasted his way into the Egyptian embassy building in the Pakistani capital Islamabad yesterday, killing at least 14 people and injuring another 60. The intensity of the mid-morning explosion shook large parts of the city and caused widespread damage.

Egypt's largest Moslem militant group, Gama'a al Islamiya (Islamic Group), swiftly claimed responsibility for the attack, although a counter-claim later came from its rival Jihad. Both groups have been waging a terrorist war against the Egyptian government since 1992.

Islamabad police officials said the blast was caused by a suicide bomber in a small van packed with explosives. Eye witnesses said an explosive device was thrown to blow open the metal doors of the embassy compound and the van continued towards the front of the building where the main bomb was detonated.

In a scene reminiscent of the Islamic bombing of the US embassy in Beirut in 1983, the explosion tore a crater about 10m wide inside the compound and ripped the facade away from the two-storey building. Army investigators were still collecting evidence on the site last night.

Five Egyptians, including two diplomats, seven Pakistanis, an Afghan and the suicide driver of unknown nationality were confirmed to have died in the blast. Mrs Benazir Bhutto, Pakistan's prime minister, condemned the attack and said her government would do all it could to bring those responsible to justice.

The blast is a setback for her attempts to project Pakistan as a moderate Islamic country after criticisms that it was harbouring Moslem militants who fought against the Soviet-backed government in Afghanistan. Egypt's President Hosni Mubarak described the bombing as "an evil crime" and offered full co-operation in the investigation.

The blast comes less than one week after a car bomb exploded outside a military installation in Saudi Arabia's capital Riyadh, killing six.

Change of strategy, Page 5

THE LEX COLUMN

Breaking the barrier

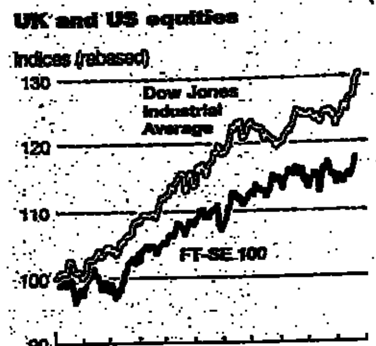
The Dow Jones Industrial Average may have failed to advance above the 5,000 mark on Friday, but it is hovering on the brink. After setting record highs almost every day this month, despite the escalation of the budget row between the White House and Congress, it seems likely that the US stock market has gathered sufficient momentum to edge above that resistance level.

But what next? The US stock market has generated total returns of more than 30 per cent in the last year, nearly twice the level enjoyed by investors in the UK stock market, while Japan, Germany, France and Italy have produced either paltry or negative returns. Moreover, the US long bond yield has just broken below another resistance level of 6¼ per cent. Once the excitement of passing the 5,000 level starts to fade, investors may begin to focus on stretched valuations.

Bar a budget shock, a period of consolidation is more likely than a rapid reversal. The market has considerable technical support from low interest rates, which are encouraging investors to shift money into US equity mutual funds, while share buy-backs have reduced the supply of equity.

Still, if US markets do stall, US fund managers may be encouraged to venture overseas next year. As US earnings growth starts to slide, the growth potential offered by emerging markets may bring them back into fashion.

UK and US equities



Source: FT Extel

Russia

The rescheduling of $32.5bn of debt from the former Soviet Union is excellent news for Russia's government: it should allow the country to finance a big chunk of its deficit in the international capital markets. But the deal has yet to be cleared by parliament. The government must be hoping this will happen quickly: next month's parliamentary elections are expected to swing against reformers in favour of communists and nationalists, for whom large payments to foreign bankers are not a priority.

An anti-reform swing in the parliament is unlikely, though, to stall broader economic reform. The government's aggressive drive to cut inflation and public spending has happened despite parliament rather than because of it. The government is appointed by the president, and he can push measures through unless the parliament musters a two-thirds vote against. The parliament is too fragmented to make this easy; even after the elections, this is unlikely to change.

The key event for investors will come not next month but next year, when Mr Yeltsin stands for re-election. The risk is that he could buy popularity by relaxing the reform process: lower interest rates and higher social security payments would go down well in the short run. The sacking of the hard-line central bank governor and a dramatically larger budget deficit in October are not healthy signs. True, the proposed 1996 budget shows no sign that reform has been abandoned. But political pressure – especially from a less reformist parliament – is bound to grow.

UK telecoms

Despite sharp price cuts in recent years, international telecoms calls are still the industry's pot of gold. It would therefore be hardly surprising if BT and Mercury Communications resisted their regulator's proposal to inject more competition into the market. Their exclusive rights to run international networks between the UK and other countries provide three streams of monopoly profits – from outgoing calls, incoming calls and leasing international circuits. Throwing the market open to competition would put all three at risk: the price of outgoing calls would fall; rivals would capture a slice of the profits from incoming calls; and the price of leasing international circuits would drop.

Oftel might well compensate BT for tougher international competition by relaxing its main price cap, which comes up for review next month. But the company naturally prefers a bird in the hand to one in the bush. For Mercury, the prospects are more worrying because international calls account for a third of its revenue, compared to only 14 per cent of BT's.

Before the market can be opened up, the Department of Trade & Industry must give its approval and so far it is dragging it feet. This is curious. While BT and Mercury would be hurt by the abolition of their "duopoly", most British businesses and consumers would benefit from cheaper calls. More competition would also boost Britain's position as Europe's telecoms hub, with increasing amounts of traffic channelled through the UK to take advantage of its lower prices.

Share buy-backs

The practice of buying back their own shares has become commonplace among US companies and is rapidly gaining popularity in Britain. But in the rest of Europe it remains rare.

Partly that is due to differences in company law. In Germany and Scandinavia share buy-backs are currently illegal. But the log-jam is starting to break up. Switzerland and Ireland have recently introduced rules allowing buy-backs and the Swedish government has put forward the idea in a white paper. In Germany, a trade body of quoted companies, headed by the finance director of chemicals group Bayer, is lobbying the government in favour of buy-backs. Even the European Commission is circulating a discussion document arguing for a harmonised legal framework which would allow them.

Cultural differences are likely to be a bigger obstacle. Anglo-Saxon companies usually repurchase shares with the explicit aim of enhancing earnings per share. On the continent, the idea of shareholder value is not always uppermost in managements' minds. In France, where companies are allowed to buy and sell their own shares, they tend to use that power defensively – to support the stock price or prevent a takeover.

Of course, a buy-back is not the only way to return cash to investors. Increasing the dividend is fairer because it benefits all shareholders equally. But much depends on the tax regime – buy-backs are lightly taxed in the US, while Germany taxes retained profits more heavily than those paid out as dividends. Once dividends have been increased, however, they are difficult to cut. As a way of distributing a one-off lump of capital, buy-backs should continue to gain acceptance.

Bosnia peace talks teeter on brink

By Bruce Clark in Dayton, Ohio

Talks on ending 43 months of war in Bosnia were teetering between success and failure last night as the US hosts announced that negotiations would end today, with or without an accord.

Mr Franjo Tudjman, Croatian president, said he was flying to Dayton, Ohio – where talks have been in progress since November 1 between the governments of Serbia, Bosnia and Croatia – in the expectation of signing a peace deal today, but US officials insisted that no accord had been struck as of late yesterday.

Mr Nicholas Burns, US state department spokesman, said a public event would be staged in Dayton today but this might be the signing of a peace accord or the announcement of failure.

US officials said Croatia seemed broadly satisfied by the deal in prospect, which would divide Bosnia between a Serb zone and a Croat-Moslem federation, but important differences remained between Serbia and Bosnia. These were understood to concern both the constitutional arrangements of a loosely structured Bosnian state, and the precise territorial division between the two parts of Bosnia.

Serbia has been pressing for the corridor between its own territory and Serb-held northern Bosnia to be as wide as possible, while the Bosnian government wants to consolidate its control of and access to the Moslem enclave of Gorazde in the east.

The Bosnian government is also nervous of any constitutional arrangements that would make it easy for the Serb zone to secede and join Serbia proper.

The Dayton talks mark a high point in five months of intensive US efforts to end the fighting in Bosnia through a mixture of force and diplomacy, and failure would be a bitter setback for President Bill Clinton.

However, the atmosphere has been overshadowed by mounting opposition in the US Congress to the dispatch of US troops to Bosnia, described by Mr Clinton as indispensable for the enforcement of a settlement.

The Bosnian government, apparently sensing that the dispatch of troops is now less likely, has redoubled its pressure on the US government for the supply of arms and military expertise as soon as the talks are completed.

Mr Robert Dole, leader of the Republican majority in the US senate, reaffirmed over the weekend that Mr Clinton had yet to convince Congress that the deployment of US ground troops in Bosnia was necessary. The House of Representatives voted on Friday to stop the use of government funds for a Bosnian mission unless Congress approves.

Mr Clinton has said he reserves the right to send troops to Bosnia under his own initiative but has promised to consult Congress.

Congress sceptical, Page 3

Italy sets low price for Eni

Continued from Page 1

Italian privatisations due in the next 12 to 18 months. The programme includes the flotation of Enel, the electricity company, the sale of further shares in Stet, the telecommunications holding company, and possibly a second tranche of Eni.

Analysts were already suggesting at the weekend that the government's generosity could be rewarded by a strong rise in the Eni share price once trading begins on November 28. That would increase the attraction of future privatisations for retail investors. These seem to have been less enthusiastic about the Eni sale than about previous sell-offs, in spite of the treasury's offer to reimburse shareholders for a maximum 10 per cent decline in Eni's share price during the first year of trading.

Between 400m and 1bn Eni shares could have been set aside for small shareholders. The government said 330m shares had been reserved through a network of banks in the two weeks before the sale. That figure could rise to 450m or more once the offer opens tomorrow, advisers said.

IMI and Credit Suisse First Boston are acting as global co-ordinators of the Eni offer.

Yeltsin plans compensation

Continued from Page 1

Russia's market reforms, which have been badly tarnished by a series of highly publicised investment scams, as well as to provide compensation. The government estimates that as many as 30m Russians may have been defrauded in the past few years.

Over the weekend Mr Yeltsin signed a decree to form a non-commercial compensation fund, financed by both state and private money, to return cash to cheated investors. The fund's advisory council would include investor representatives.

Licensed investment companies will be encouraged to join the fund and to contribute its initial assets. But the fund will also receive 2 per cent of all revenues raised from privatising state-owned companies.

The decree also calls for stricter licensing of existing investment funds and provides greater powers to investigate and prosecute owners of fraudulent companies. "Firms which do not want to be reorganised will be disbanded, their property will be sold and money from the sale will be transferred to the compensation fund," Mr Dmitry Vasiliev, executive head of the Federal Securities Commission, said.

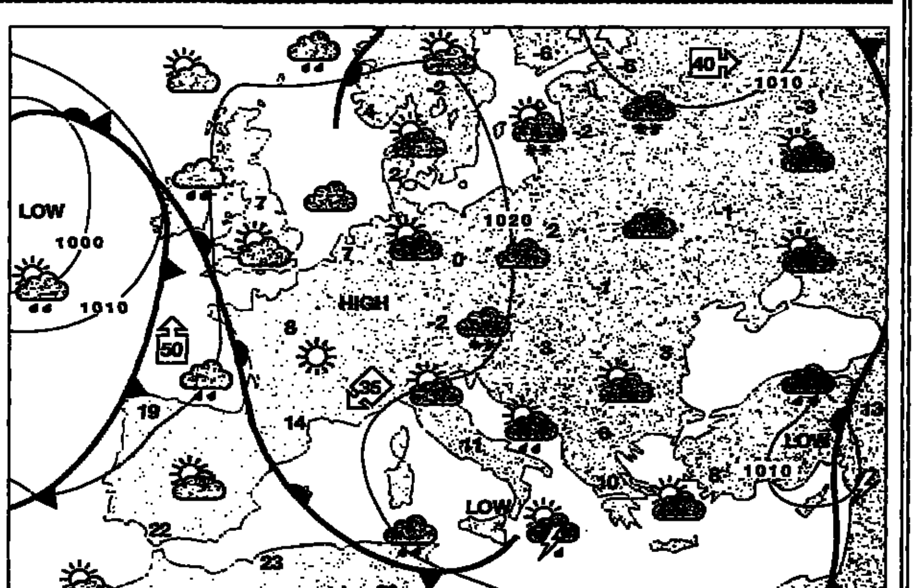
FT WEATHER GUIDE

Europe today

An Atlantic depression will bring rain and cloudy conditions to western parts of the UK and western France. A depression moving south-east over the Carpathians will result in low temperatures in south-east Europe. High pressure will bring sunny, but cold conditions to the Low Countries, Germany and southern Scandinavia. The Alps will be cloudy and will have light snow. Rain will develop over the central Mediterranean as a depression moves across southern Italy. To the north of this system, cold air will move east producing strong and cold northerly winds in the Rhone valley.

Five-day forecast

An Atlantic depression will move across western Europe resulting in low temperatures, rain, strong winds and frost overnight. Southerly winds will bring higher temperatures, although rain will spread slowly. A ridge of high pressure over eastern Europe will result in fair, but cold conditions in eastern and south-east Europe. Eastern parts of the Mediterranean will have heavy rain.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Maximum Celsius

			Beijing	sun	12	Caracas	fair	31	Faro	fair	22	Madrid	fair	18	Rangoon	fair	32
			Belfast	rain	9	Cardiff	rain	9	Frankfurt	fair	4	Majorca	sun	18	Reykjavik	cloudy	5
Abu Dhabi	sun	30	Belgrade	shower	5	Casablanca	fair	24	Geneva	drzzl	6	Malta	thund	17	Rio	thund	28
Accra	fair	31	Berlin	fair	1	Chicago	cloudy	6	Gibraltar	fair	22	Manchester	drzzl	7	Rome	fair	14
Algiers	fair	23	Bermuda	fair	24	Cologne	fair	4	Glasgow	cloudy	6	Manila	shower	31	S. Frsco	fair	18
Amsterdam	fair	8	Bogota	shower	18	Dakar	sun	33	Hamburg	sun	2	Melbourne	fair	21	Seoul	fair	7
Athens	fair	10	Bombay	sun	33	Dallas	fair	20	Helsinki	cloudy	-7	Mexico City	fair	23	Singapore	shower	31
Atlanta	fair	18	Brussels	cloudy	7	Delhi	sun	28	Hong Kong	fair	23	Miami	fair	27	Stockholm	sun	-4
B. Aires	fair	22	Budapest	cloudy	4	Dubai	sun	30	Honolulu	fair	29	Milan	fair	11	Strasbourg	fair	6
B.ham	cloudy	7	C.hagen	fair	1	Dublin	rain	10	Istanbul	fair	7	Montreal	fair	3	Sydney	shower	22
Bangkok	fair	32	Cairo	fair	23	Dubrovnik	shower	8	Jakarta	thund	31	Moscow	snow	-4	Tangier	fair	23
Barcelona	fair	17	Cape Town	fair	29	Edinburgh	fair	6	Jersey	rain	8	Munich	snow	-1	Tel Aviv	fair	23
									Karachi	sun	32	Nairobi	fair	26	Tokyo	fair	17
									Kuwait	sun	26	Naples	shower	11	Toronto	cloudy	6
									L. Angeles	sun	22	Nassau	fair	27	Vancouver	rain	9
									Las Palmas	sun	29	New York	fair	10	Venice	fair	9
									Lima	cloudy	22	Nice	fair	14	Vienna	snow	2
									Lisbon	cloudy	22	Nicosia	shower	21	Warsaw	cloudy	0
									London	fair	8	Oslo	cloudy	0	Washington	fair	13
									Lux.bourg	fair	5	Paris	fair	7	Wellington	fair	14
									Lyon	cloudy	6	Perth	sun	29	Winnipeg	snow	-2
									Madeira	fair	25	Prague	snow	-1	Zurich	sleet	4

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FINANCIAL TIMES SURVEY Monday November 20 1995

NORWAY

The minority may be right after all

Outside the European Union, Norway is prospering. But its non-oil economy is a worry, write **Hugh Carnegy** and **Karen Fossli**

The minority is always right, wrote Henrik Ibsen, Norway's most famous author, in his play An Enemy of the People.

A year after a clear majority of the country ignored warnings of political and economic isolation issued by much of the political and business establishment and voted against joining the European Union, most Norwegians would surely beg to differ.

In the 12 months since the referendum, Norway appears to have gone from strength to strength.

The economy, carried forward as it has been for two decades by the rich flow of North Sea oil and gas, has rarely been in better shape, growing by almost 4.5 per cent this year, with growth of more than 4 per cent expected again in 1996. Predictions that the country would pay a price in higher interest rates for opting out of the EU have so far proved overblown. Unemployment, at 5 per cent of the workforce and falling, is among the lowest levels in western Europe.

Politically, the country has enjoyed remarkable stability in the aftermath of the hard-fought referendum campaign. Mrs Gro Harlem Brundtland, leader of the minority Labour government, emerged all but unchallenged as prime minister despite having invested much of her prestige and all of the force of her office in the vain effort to secure a Yes vote.

A year on, the coalition of rural interests, nationalists, leftists and environmentalists which combined to win the referendum has disbanded, leaving the Labour government well entrenched against a deeply split opposition. There was no repeat of events in 1972, when an earlier failed attempt to take Norway into the then EEC led to the collapse of the Labour government of the day.

Nor, yet, have the effects of saying No a second time to the European club been much felt on the foreign policy front. Paradoxically perhaps, Norwegians have nodded in approval as Mrs Brundtland has deftly shifted the country to a fallback position of pursuing as close a relationship with the EU as possible short of full membership, a policy that the EU in turn has largely been happy to reciprocate.

But is it still possible that Ibsen's words will turn out to be true about the EU decision? For a good number of years to come, the North Sea petroleum bounty will continue to buoy the economy and underpin Norway's position as one of the world's most prosperous nations. This year, the country will be the world's largest petroleum exporter after Saudi Arabia.

Yet those who argued that joining the EU was an important step towards warding off the onset of longer-term shadows insist that the sunny climate of the last year has not changed their judgment.

This case is probably hardest to make about the economy, at least for the time being. Despite rejecting full EU membership, Norway remains in all but a few sectors such as agriculture an integral part of the EU's single market through its participation in the European Economic Area. Although the advent to the EU of Austria, Finland and Sweden mean the only remaining non-EU members of the EEA are Norway, Iceland and tiny Liechtenstein, there is no sign of the arrangement being unwound.

Thanks to petroleum revenues, the government finances are in better shape than those of most EU members. Next year, the budget will move into surplus and the government will become a net lender. Norway already meets all the criteria – budget balance, modest debt levels, currency stability, low interest rates and low inflation – set for the final phase for European economic and monetary union.

Indeed, unless there is a slump in oil prices, Norway will use its projected NKr10.6bn budget surplus next year to invest in foreign assets in the first of what it intends will be several years of saving against the future decline in oil and gas returns.

However, the pro-EU argument does apply in one important respect to the economy – because the oil bonanza will not last for ever. Government projections predict that revenues will begin to decline sharply in about five years' time – at just the moment when Norway's ageing population will mean a dramatic increase in the state's heavy pension obligations.

The worry is that this conjunction will expose the relative weakness of the non-oil economy. (Excluding petroleum revenues, the budget remains heavily in deficit as a proportion of non-oil GDP.) With the country outside the EU, investors may begin to adopt a wary attitude to Norway as the end of the petroleum era hoves into view, making it more difficult to secure the conditions for post-petroleum prosperity.

The clearest arguments for Norway to enter the EU were political and strategic. The pro-EU camp remains deeply concerned by the absence of the country from the EU table at a time when the Union is the most important forum in deciding future policy on the continent in all areas from economic to defence and security matters.

Gro Harlem Brundtland: well-entrenched Ashley Ashwood

Again, events this year have to a considerable degree worked in Norway's favour. The EU has responded with some readiness to Oslo's "shadow" membership by which it seeks to stay as closely informed as possible on EU affairs and to make its voice heard as clearly as possible.

"In general, Norway has received from the EU and EU member countries fair treatment – a willingness to listen and a willingness to find solutions," says Mr Jonas Gahr Störe, director of international affairs at the prime ministry. "We have absolutely nothing to complain about the way we have been treated since the referendum."

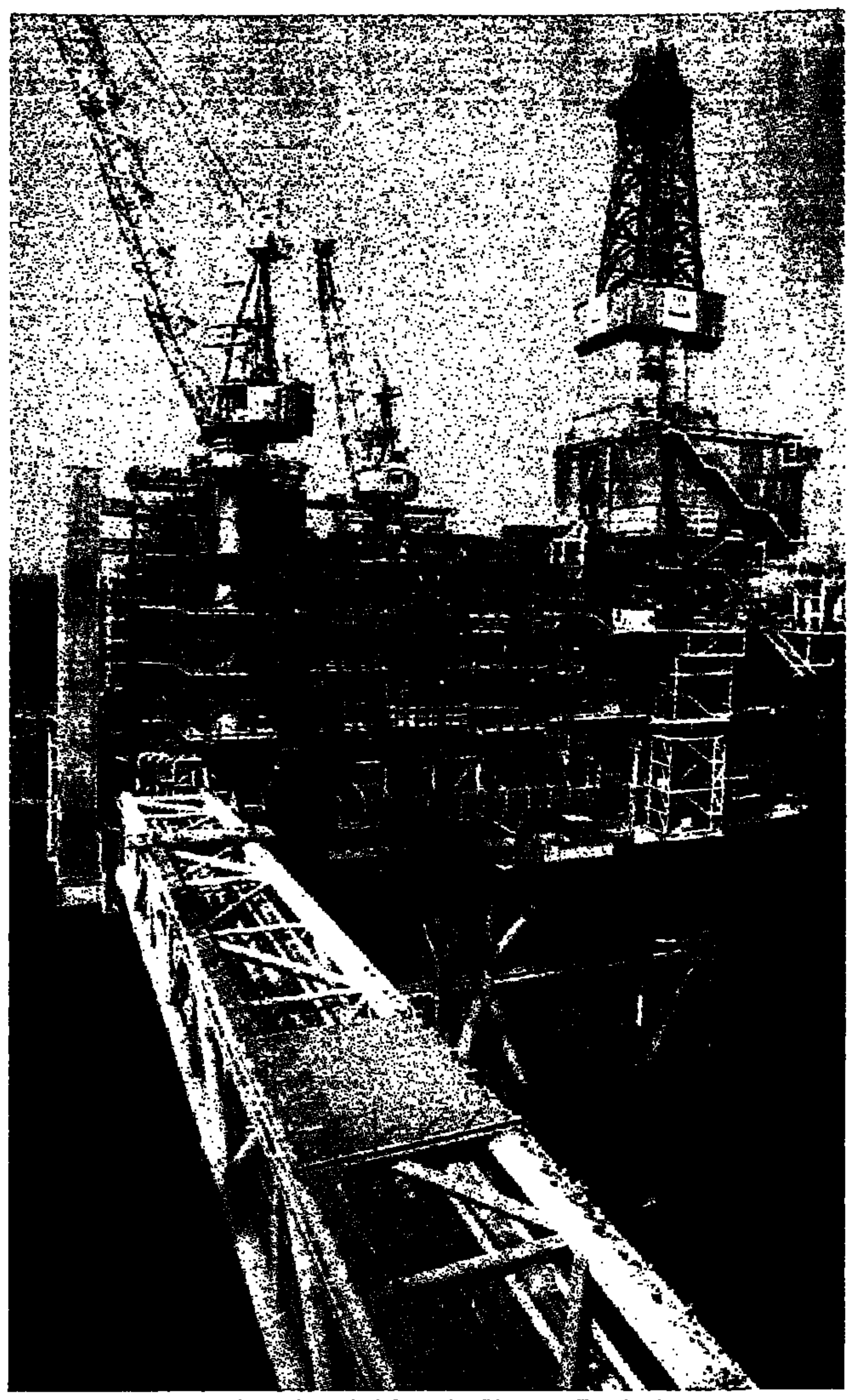
A striking example of this has been the expected accession of Norway – and Iceland – to the Schengen accord on open borders between a core of EU members. Championed by Denmark, Finland and Sweden, which have been in a Nordic passport union for decades, the entry of Norway would lead to the remarkable position where an external EU border was administered by a non-EU member.

In another key area – security and defence – developments have turned somewhat to Oslo's advantage. As a founder member of Nato, Norway was worried that its exclusion from the EU, and therefore from full membership of the Western European Union, would set it at one remove in the evolution of post-cold war security structures in Europe.

But the initiative – in effect, to develop the WEU into a European defence arm – has faltered. Meanwhile, events in former Yugoslavia have shifted the emphasis back to Nato, and the leading role of the US in European security, to the quiet satisfaction of many Norwegian officials.

However, those officials are under no illusion about the vulnerability of Norway to future developments. At the moment, the close relationship within the structures of Nordic co-operation with Denmark, Finland and Sweden, give Norway an invaluable channel to monitor and try to influence EU policy. But the three Nordic EU members are increasingly likely to find defending Norway's interests a distraction as their own relationships with the EU deepen.

Above all, the threat of isolation which voters rejected last year is likely to become real if the EU goes ahead with its plans to expand at the turn of the century to as many as 25 countries, including the nations of central and eastern Europe. In that case, making Norway's voice heard within the main forum of European policymaking would become much more difficult than it is today in a EU of 15.



The Oseberg Field Centre oil platform in the North Sea ... the oil bonanza will not last for ever

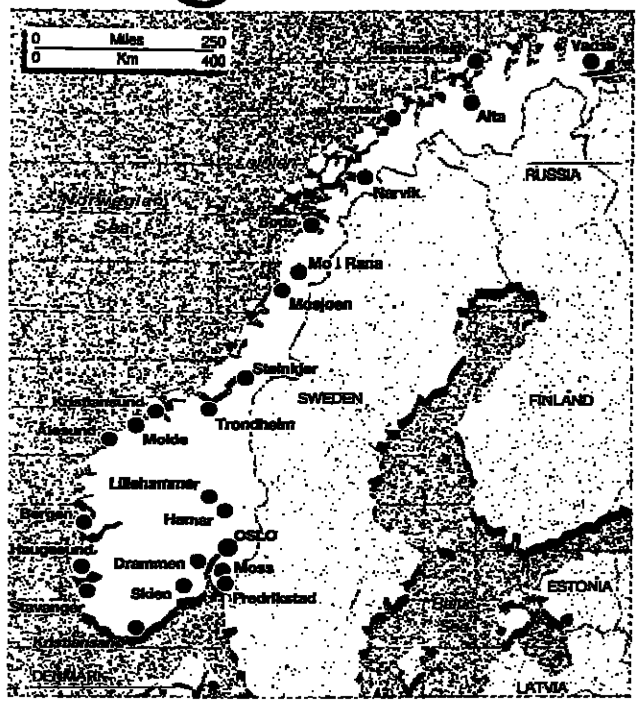
There are voices to be heard in Oslo arguing that EU expansion would compel Norway's leaders once again to attempt to persuade the country to join the Union.

But in today's atmosphere of economic well-being and national self-confidence, those voices are confined mostly to the halls of academia and private political discussion. No politician has yet dared to suggest publicly, in line with Ibsen's famous phrase, that the minority last year was right.

The economy: by Hugh Carnegy and Karen Fossli

The strength that may not last

The country is in an enviable position, but it could suffer when the oil runs out




The Oslo stock exchange — Tony Andrews

On a recent visit to Rome, a senior Norwegian government official was asked by his Italian counterpart how large were Norway's budget deficit and state debt. His reply – that next year the country's finances would move into surplus and that the government was a net lender – was greeted with incredulity.

"I don't think you understood my question," the Italian said. But the question had indeed been understood and the answer was correct.

Unlike so many countries in Europe, oil-boosted Norway is enjoying not only a strong economic performance, but also has its fiscal affairs well in order. It would already qualify comfortably for European economic and monetary union had the Norwegians not voted against joining the European Union in a referendum a year ago.

A rundown of key indicators illustrates the enviable position the country finds itself in:

■ GDP grew by a powerful 5.7 per cent last year, including the oil and offshore sector; mainland GDP was also very strong at 4.8 per cent. Growth is slowing somewhat, but GDP growth of more than 4 per cent is expected this year and next, with mainland growth expected to reach 3.2 per cent this year and 2.6 per cent in 1996.

■ Inflation will rise this year to an estimated 2.5 per cent after a 1.4 per cent increase last year, but is expected to fall back to 2 per cent in 1996.

■ Unemployment declined to 5.5 per cent of the workforce in 1994 – low by west European standards – and is forecast to fall steadily to 4.7 per cent next year.

■ Interest rates, which many feared might rise significantly after the negative EU vote, remain low, with long-term rates only about 1 per cent above benchmark German rates. The krona has been stable, appreciating against the Ecu this year.

The Labour government, however, recognises that there is little room for complacency. "Of course the Norwegian economy is going very well," says Ms Marianne Andreassen, junior finance minister. "But we can see problems both in the short run and in the long term."

The main potential problem in the short run lies in the very cyclical nature of the economy. It is in the midst of an upswing now, but the government fears overheating. At the same time, Norway is – inevitably – acutely vulnerable to a fall in the oil price.

But it is on the longer term that most concerns are focused. Although Norway is blessed with the bounty of oil and gas revenues from the North Sea, petroleum returns are reaching a peak and are estimated to start declining early in the new century. At the same time, there will be a rapidly growing number of old people as the state's pension commitments start to rise sharply.

A stark graph in the 1996 budget proposals shows the central government's net cash flow from petroleum operations falling steeply from some 8 per cent of GDP in the early years of the next decade, while pension dues rise equally steeply from the same level. By the year 2010 – if projections are correct – the gap between the two could be close to 5 per cent of GDP.

This has underscored worries about an uncomfortable underlying feature of the Norwegian economy. The non-oil economy is relatively weak, with a low manufacturing base and a big state welfare system. If the Italian official had asked how big was the government budget deficit excluding oil, the answer would have been very different: in 1995 the figure is set to be close to 8 per cent of mainland GDP.

So the government's strategy is to use the present high point in oil returns and in the non-oil economic cycle to prepare for the leaner times it expects in the future. "The petroleum revenues are very special," says Ms Andreassen. "As you reap them, you are depleting your wealth base. It is critical how we use this money."

To this end the government established in 1990 the Petroleum Fund as a vehicle to invest surplus revenues against future needs, rather than spending funds on current spending or transfers. To date, however, there has been no surplus to invest. It is only in 1996 that the government will have a NKr10.6bn budget surplus available to invest – assuming the oil price stays at or above the NKr105 per barrel level forecast and parliament does not vote to spend more.

The Petroleum Fund money is to be invested overseas, initially in non-risk, liquid assets such as government bonds.

Meanwhile at home, the government is committed to continued budgetary restraint and low inflation policies to improve the competitiveness of the mainland economy. It is worried that, though relative labour costs fell in the early 1990s, the trend has reversed recently and the country remains at levels above the average of its competitors.

The business community is critical, however, and would like to see the government go further both in fiscal rigour and in structural reforms. Mr Tor Steig, director for economic policy at the Confederation of Norwegian Business and Industry, says the Petroleum Fund should be structured to set aside much greater amounts before government spending programmes have been decided.

The confederation also calls for reforms to make the labour market system more flexible, to cut Norway's extremely generous sick pay benefits and to exert stronger controls on local government spending. But Mr Steig says attempts to introduce more market-oriented policies tend quickly to run into opposition in equality-minded Norway.

"It is impossible to discuss incentive-oriented schemes. They are seen as unfair and not egalitarian. And it is very difficult to do something about these issues when the country is so rich," he says.

KEY FACTS

Area	323,877 sq km
Population	4.3 million (1994 estimate)
Head of state	King Harald
Currency	Norwegian Krone (NKr)
Average exchange rates	
	1994 \$1=NKr7.05 ; 9/11/95 \$1=NKr6.23
	1994 £1=NKr10.79; 9/11/95 £1=NKr9.86

ECONOMY	1994	1995*
Total GDP (\$bn)	123.5	n.a.
Real GDP growth (%)	5.7	3.7
GDP per capita (\$)	28,709	n.a.
Components of GDP (%)		
Private consumption	52.0	
Total investment	19.7	
Government consumption	21.9	n.a.
Exports	43.4	
Imports	-37.0	
Consumer prices (% pa)	1.4	2.5
Manufacturing prod.(% pa)	6.8	5.8
Oil & gas output (% pa)	12.4	7.8
Unemployment (% of lab force)	5.4	5.0
Reserves minus gold (\$bn)	19.0	21.6
3 month interbank rate (%, avg)	5.96	5.45
10 year govt bond yield (%, avg)	7.47	6.75
FT-A index (% change over year)	+6.7	-2.1
Current account balance (\$bn)	3.6	5.1
Exports (\$bn)	34.9	
Imports (\$bn)	26.6	n.a.
Trade balance (\$bn)	8.3	

Main trading partners (1994, % by value).	Exports	Imports
Nordic countries	17.1	25.6
Germany	12.5	14.0
UK	21.1	10.5
EC	64.7	49.2

* = EIU estimates for 1995 except reserves (August), interest rates (9/11/95) and stock market index (% change from 1/1/95 to 9/11/95).

Sources: IMF, Datastream, Economist Intelligence Unit.

Banking: by Hugh Carnegy

State is accused of political football

A heated debate has broken out over Labour's plans to keep control of two big banks

When it comes to the everyday business of performance, Norway's banks have all but completed the long haul back to full health after the loan loss turbulence that laid them low at the turn of the decade. But another form of turbulence – a direct consequence of the earlier crisis – is rattling the country's financial sector.

The losses suffered by the sector in the early 1990s were so deep that the principal commercial banks were taken over by the state to prevent a collapse in the system. Now the banks – supported by most of the business and industrial community – would like to return to full private ownership.

But the Labour government has made a commitment to retain effective long-term control over the two biggest banks, Den norske Bank and Christiania Bank, prompting a heated debate that has spilled over into party politics and created considerable uncertainty over the outcome of a still-incomplete trend of consolidation within the industry.

On the performance front, the picture at present is of stability – though not without some worries. Last year, the commercial banks together more than doubled net profits, from NKr2bn in 1993 to NKr4.8bn, pushing up profitability from 19 per cent of average equity to 24 per cent. The biggest feature in this outcome was a dramatic tumble in loan losses, from NKr6bn to NKr200m – the clearest sign yet that the banks had overcome the previous crisis.

This year, the upward trend has continued. In the first nine months, Christiania Bank reported a jump in operating profits from NKr1.13bn to NKr2.32bn, in large part because it was able to write back significant sums previously written off against loan losses. Write-backs were also a key factor in DnB's nine-month profit of NKr2.1bn, a 7 per cent rise on the same period last year.

However, DnB suffered a fall in net interest income in the first nine months, while Christiania managed only a modest rise. The development signals the narrowing spreads that the banks can achieve between deposit and lending interest rates in an increasingly competitive market. But it also appears to signal a peaking of the cycle in Norway's traditionally highly-cyclical economy.

> The prospect of leaner times has increased the pressure for consolidation

The prospect of leaner times in core operations (and the banks are also warning that the recent boost from write-backs will not last) has increased the sector's eagerness to push ahead with consolidation to ensure efficiencies are maximised. There are 22 commercial banks in Norway and more than 100 savings banks.

Competition across the financial services spectrum is on the increase – the most notable example for the banks being the growth in Norway of Sweden's Svenska Handelsbanken, which now has 12 branches and a near 3 per cent market share.

"We still have too many banks and the larger banks are still smaller than they need to be to compete in the international environment. This is something that troubles us a lot," says Mr Steinar Juel, director of business development at Christiania (the bank is known in Norway as Kreditkassen).

This year has already seen some significant moves. DnB has taken a winning position in its battle with the Dutch insurer Aegon for control of Vital Forsikring, the country's second largest insurance company; Christiania is poised to complete a takeover of Norgeskreditt, giving it a leading 38 per cent share of the mortgage institutions market; in July, Nordlandsbanken, a leading regional commercial bank in the north, beat off a takeover bid by Sparebanken Nord-Norge, one of the country's biggest savings banks.

But the process has become ensnared in politics. This stems from the Labour government's decision – against earlier indications – that it will retain effective control of DnB (currently 72 per cent state owned) and Christiania (69 per cent) in state hands indefinitely. This year, the government completed the re-privatisation of Fokus Bank, which is one of the larger rivals of the big two banks and had to be rescued during the credit loss crisis.

The rules are to be different for the big two, however. The government has said it is prepared to reduce its stake to 50 per cent in each by 1997, and thereafter to one-third. But it plans to go no further. "We need to have stable ownership of the banks," says Ms Marianne Andreassen, state secretary at the finance ministry. "Keeping a one-third state share is not the only way, but it is the best way. There is also a fear that these two banks will come under foreign ownership – that is part of the issue."

This position is rejected by the Bankers' Association. "We think the government should sell all its shares as soon as orderly market conditions make it possible," says Mr Trond Reinertsen, chief executive of the association. "We think that is possible while keeping the controlling shareholdings in Norwegian hands. But we should also remember that the whole economy of this country has been built on foreign capital.

"We are very concerned not to give the impression that we want to exclude foreign capital. On the contrary, we should welcome it."

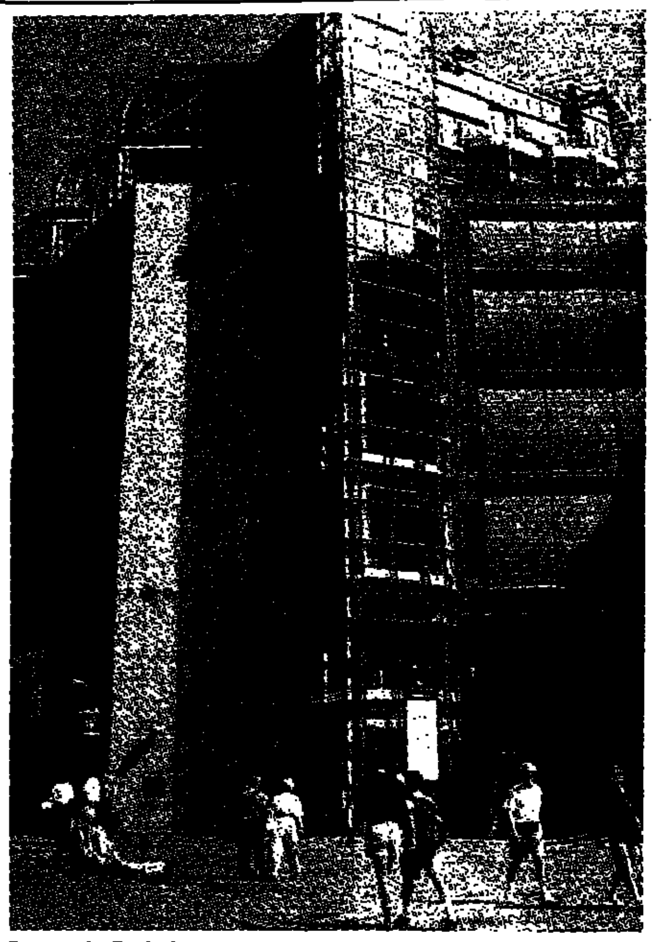
The dispute has already caused problems. Earlier this year, a bitter row broke out between the banks and the government when the state tried to force the banks to pay out 50 per cent of profits in dividends. The government eventually backed off, but the dispute left a question-mark over the issue of direct interference in the banks.

The state is also left in the awkward – some critics say untenable – position of being both owner and regulator of the financial institutions. This has been shown up to an acute degree in the case of DnB's bid battle with Aegon for Vital, as any deal requires official approval.

At the same time, if and when DnB and Christiania move to acquire another institution, the state automatically extends its ownership role in the sector. This has attracted strong criticism from the Conservative party and other opposition groups. As the Labour government is in a minority in parliament, uncertainty over these issues is considerable.

"In this situation, banking becomes a political football and it is an environment in which it is very difficult to operate," says Mr Juel of Christiania. "We don't want that for the next five or six years."


Christiania Bank, also known as Kreditkassen: 69 per cent state-owned — Tony Andrews


Den norske Bank: 72 per cent state-owned — Tony Andrews

Company profile: AKER

How cement offers opportunities

Restructuring has enabled the company to shake off offshore problems

This year has seen an unusual amount of merger and takeover activity in Norway in sectors as diverse as financial services, pharmaceuticals and food and drinks. But one of the companies that has undergone the biggest structural change is Aker, the cement and petroleum technology group.

Aker, headquartered in the fashionable Aker Brygge complex on Oslo's waterfront, has restructured itself dramatically over the course of the year in an attempt to shake off past problems associated with its offshore facility manufacturing and grasp new opportunities it sees in the world cement market.

The shake-up began in May when Aker took action to try to insulate its operations from the effects of a spectacular accident in 1991 when a large concrete oil production platform, the Sleipner A, which it had built for Statoil, the Norwegian state oil company, sank in a fjord near Stavanger as it was about to be towed out into service in the North Sea.

Insurers of the platform are pursuing a NKr2.3bn lawsuit against Aker and its subsidiary, Norwegian Contractors, alleging gross negligence. The case is due to be heard in late 1996 and Aker is so confident it will win that it has rejected any out-of-court settlement. But the suit has long worried investors, undermining Aker's share price.

Aker therefore decided to reorganise its corporate structure to protect its chief operations from any possible adverse effect from the lawsuit. The company was split into two main divisions, covering oil and gas technology and cement and building materials, both independently financed and managed. Norwegian Contractors was separated off and is to be wound up.

This reorganisation was, however, only the first step. In October came the second when Aker moved to merge the cement and building materials operations with Euroc, the Swedish cement group. In a complex deal, Aker is to become a one-third owner in the yet-to-be-named new company, an equal partner in ownership with Skanska, the Swedish construction group.

The Euroc deal completed Aker's long-term plan to forge a pan-Nordic cement group with the muscle to expand significantly overseas – the new company will be the sixth largest in the sector in Europe.

But it left Aker a very different-looking company than it was at the beginning of 1995. Aside from its 100 per cent interest in the oil and gas technology operations and one-third interest in the new cement company, Aker is also left holding a 27 per cent share in the Finnish group Partek, which is worth at present far less than the NKr1.1bn it paid for the stock last year as part of its manoeuvring in the cement business.

The new shape apparently left many investors somewhat nonplussed. At the beginning of this month, Aker's share price remained around NKr80, slightly below its level before the first reorganisation in May.

Mr Tom Ruud, chief executive, admits that Partek is "not of the same strategic value" to Aker as the other components, signalling Aker may sell its stake once the Partek share price is stronger.

But he insists the underlying structure and strategy of Aker is clear. "Aker is an industrial company with a perspective much more than that of an investment company," he says. "We have undergone the type of restructuring that suits the two kinds of business we are involved in owning and operating."

Aker is certainly embarking on its reordered future from a platform of improved performance. In the first eight months of this year, pre-tax profits jumped well ahead of analysts' expectations to NKr643m from NKr358m in the same period last year, despite a NKr1bn fall in sales to NKr9.7bn.

The oil and gas technology division returned a weaker performance, with operating profits falling to NKr92m from NKr142m and sales slipping to NKr3.8bn from NKr4.3bn. With investment levels in the Norwegian North Sea sector set on a falling path, the outlook could be gloomy.

But Mr Ruud is bullish about the division's prospects, saying Aker is well placed to benefit from a shift in the industry from giant cement platforms to smaller, more flexible floating production platforms. He also anticipates that Aker can exploit its expertise in offshore technology as oil producers move more into deep water exploration around the world.

"There, North Sea technology is particularly suitable and 'floaters' will be the key. The laboratory for that is the Norwegian and UK sectors and our experience from those sectors can be utilised internationally," Mr Ruud says.

In cement, meanwhile, Mr Ruud makes no secret of his ambitions for the newly-formed company, which he is set to chair. The company, which will be based in Euroc's home base of Malmö in Sweden, will have annual sales of some NKr15.5bn. Profitability in both Euroc and Aker's cement activities has waxed strongly this year.

The intention is to expand quickly beyond the new company's core markets in Sweden and Norway (where it will have a more than 90 per cent market share) in Europe and beyond.

With plenty of cash in the bank, Aker is prepared to play its part in backing the expansion of the cement company – while maintaining its one-third ownership share. Mr Ruud clearly foresees calls on the owners for funds as he says the company is likely to go for rapid growth by acquisition.

Hugh Carnegy

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■ **Business ownership:** by Hilary Barnes

Risk of 'mixed-up economy'

The private sector is worried both by state ownership and by foreign control

How much of Norway's business sector should be owned by foreigners or by the state has become an agonising topic for debate among private sector companies in the light of three recent and significant merger moves.

The foreign ownership issue has been highlighted by a Dutch group's bid to take over Vital, one of Norway's largest insurance companies; the merger arrangements for Hafslund Nycomed, the pharmaceuticals group, with Ivax, of the US; and the recent Nordic cement industry tie-up between Norway's Aker and Sweden's Euroc.

After Hafslund Nycomed's merger with Ivax, only 25 per cent of the capital in the pharmaceuticals group will be Norwegian. In the Aker-Euroc deal, the headquarters of the successor corporation will be in Sweden.

According to Mr Karl Glad, managing director of the Federation of Norwegian Industries, capitalism has become a competition for competence and know-how. Internationalisation of Norwegian industry is desirable, he says, but if it means that headquarters functions move abroad, there is a clear risk that competence will drain from Norway. The best defence, in Mr Glad's view, is for the government to ensure that the Norwegian climate for business, including the opportunities for tax-plagued households to build up private savings, is at least as attractive as that elsewhere.

The problem – if it is a problem – of state ownership has been brought to the fore by the Norwegian Bankers Association, which recently calculated that the state owns at least half the country's business and industry, including 25 per cent of the stock issued by companies listed on the Oslo Stock Exchange.

Foreign ownership, according to the same study, comes to about 14.5 per cent of all business and industry, while the Oslo Stock Exchange's figures for share ownership show that foreigners own about 30 per cent of the shares in companies listed. This compares with just over 20 per cent foreign ownership in Swedish listed companies (in 1994) and under 10 per cent in Danish listed companies.

Mr Trond R. Reinertsen, managing director of the Bankers Association, is a prominent

> The state owns at least half the country's business

critic of the spread of state ownership. Norway, he says, is in danger from moving from a mixed economy, in which most businesses are owned and operated by private interests, into a mixed-up economy. The mix-up is between the state as owner, lawmaker and the authority which sees that the laws are kept. Competition is also affected by state ownership, he says.

"We are moving into unknown waters, of which no western country has any experience," he wrote in an article published earlier this year. The Labour government is aware of the potential problems of the large state ownership, but the present party-political make-up of the Storting is not one which favours large-scale privatisation. Mr Jens Stoltenberg, minister for energy and industry, has promised that the whole issue will be discussed in the government's next long-term economic planning report, which is due in 1996.

Two factors have contributed strongly to the growth of state ownership of Norwegian industry – the onset of the oil era from 1970 onward and the banking crisis of the early 1990s. Through Statoil, the state-owned oil and gas company, the government has a stake valued by the Bankers Association at NKr95bn in the offshore industry.

The state also has enormous direct investments in the North Sea (known as State Direct Economic Engagements), worth about NKr380bn. In addition, it owns 51 per cent of the second large Norwegian offshore company, Norsk Hydro. Statoil and the direct state engagements together (the Bankers Association counts Norsk Hydro as a private company for the purposes of its ownership study) account for more than half the value of the state's total business investments, which are put at NKr752bn.

Other major areas of public ownership are hydro-electric power generation, about NKr150bn, and Telenor, the state telecommunications monopoly, NKr11bn. When Norwegian banking was hit by a dramatic crisis in 1992, the state took control of what were then the three largest commercial banks in preference to an arm's length rescue process.

The three were Den norske Bank, Christiania Bank and Fokus Bank. Fokus, the smallest of the three, is to be privatised, but the state intends to retain control of the other two.

The state also owns several other banks, of which the largest traditionally have supplied cheap mortgage loans. These banks, with an equity valued at about NKr10bn, account for just over 20 per cent of total bank lending.

Until the conclusion of the European Economic Area agreement with the European Union, Norway controlled foreign acquisitions through the so-called concession (or licensing) law. The old law, applying only to foreign acquisitions, has been replaced by a law which requires all companies, Norwegian and foreign, to seek approval of the government for mergers and acquisitions, and is thus non-discriminatory.

Politically, the issue is particularly sensitive in the finance industry, where one motive for continued state control of the two biggest commercial banks is to ensure that they stay Norwegian.

The government finds itself in a dilemma over the bid by Aegon for Vital earlier this year, which was met with a counter-bid by Den norske Bank. So far, it has stalled. At the time of writing, neither acquisition by Aegon nor DnB has been approved by the Ministry of Finance. In the meantime, a majority has emerged (though it has not yet been tested by a vote) in the Storting to reject both merger bids. Two arguments are used: Vital should stay Norwegian, and concentration of ownership in the finance industry should be avoided.

If the government ignores Storting opinion and approves both DnB and Aegon as potential owners of Vital, the Dutch company is expected to make a new offer to shareholders to try to wrest control from DnB. On the other hand, the Storting might then wrest control from the Labour government. If the Storting insists on rejecting Aegon's right to acquire Vital, Norway risks a head-on conflict with the European Union over the free movement of capital under the terms of the European Economic Area agreement.

■ **Foreign relations:** by Hugh Carnegy

Oslo's 'next best' strategy

The country's "four leg" platform amounts to shadow European Union membership

Soldiers on duty at the Akershus Fortress — Tony Andrews

Since the referendum vote on November 28 1994, rejecting membership of the European Union, blew apart the Labour government's core foreign policy plans, Oslo has had to construct what might be termed a "next best" strategy.

The vote was not followed by any radical departure in foreign policy; instead, Norway is attempting to stick as closely as possible to how things would have been had the country elected to join the EU. It amounts to a policy of shadow EU membership.

Mr Jonas Gahr Störe, director of international affairs at the prime minister's office, likens Norway's post-referendum foreign policy – appropriately enough – to an oil platform on four legs.

The legs are the country's membership of the European Economic Area (the agreement with Brussels originally intended as a holding arrangement for aspirant EU members, but which now gives Norway, Iceland and Liechtenstein almost full access to the EU's single market); its membership of Nato; co-operation with other Nordic countries; and the relationship with the EU.

The four "legs" are closely interconnected. EEA membership gives Norway an invaluable economic link to the EU. Membership of Nato, of which Norway is a founder member, and associate membership of the Western European Union mean that Oslo remains intimately involved in the evolution of post-cold war defence and strategic policy in Europe. The structure of Nordic co-operation, which includes EU members Denmark, Finland and Sweden, gives Norway a channel for information and influence on the EU.

The question is to what degree this "next best" strategy achieves its aim.

So far, Norwegian officials express satisfaction that the policy is working well, both at home and abroad. Opinion polls suggest broad backing from the electorate, while relations with the EU and individual EU countries appear to remain close.

"It is not easy getting meetings on the level we would look for, but so far we have got most of what we wanted," says Ms Siri Bjerke, assistant foreign minister with responsibility for European affairs.

Perhaps most striking to date is the likely accession of Norway – and Iceland – to the Schengen agreement under which a core of EU countries have reduced border controls between them to a minimum. The two non-EU members are set to join because their fellow Nordic nations, which also want to join, do not want to break up the decades-old Nordic passport union to do so. And Sweden, Finland and Norway do not want their open – and long – land borders to become more closely controlled EU external borders.

The other Schengen nations appear to have accepted in principle that Norway and Iceland can join – so that an external border of EU Schengen members will be administered by a non-EU member.

In other respects, too, events have worked in Norway's favour. A clause included in the EEA agreement providing for political dialogue between EEA members and the EU has for Norway assumed great importance as a means to sustain formal access to political developments in the EU.

Significantly, developments on the defence and security front have not undermined Norway's influence as Oslo feared. As a non-EU member, Norway cannot be a full member of the WEU. It had been anxious that this would leave it exposed if, as has been mooted, the WEU was to become the principal instrument of European defence and security, assuming more of the role now played by Nato.

But that move appears to have been sidetracked. Instead, events in former Yugoslavia have shifted the emphasis back to Nato, with its strong transatlantic foundation, which Norway strongly wants to maintain and where it has the influence of a full member.

Nevertheless, Norway is under no illusions that its position outside the EU means it is harder to sustain its overall influence in European affairs than before.

"Government members are putting more efforts into keeping up their contacts," says Ms Bjerke. "They have travelled as much to Brussels and to EU member capitals this year as in the interim period before the referendum."

Mr Gahr Störe admits Norway is in a "somewhat vulnerable position". On vital issues, such as EU fisheries and energy policies, Oslo's limited influence as a non-EU member could at some stage in the future work against the country's best interests.

There is a question mark over the extent to which Denmark, Finland and Sweden will continue to have time to, in effect, represent Norway's interests to the EU. "The others may become woven into a network that, bit by bit, brings them into a different culture. That is a fear," says Mr Gahr Störe.

Norway's position is also likely to become more isolated when – assuming Brussels sticks to its plans – the EU expands to include the nations of central and eastern Europe. That development, due early in the new century, might prompt Norway's politicians once more to propose membership to their electorate.

■ **Energy policy:** by Karen Fossli

Welfare state opens the taps

Facing a conflict of interests, the country has put the environment in second place to oil

Oil platforms near Olen in western Norway — Tony Andrews

In pursuit of an aggressive energy policy, Norway, western Europe's largest crude oil producer, has abandoned a pledge to stabilise domestic carbon dioxide emissions at 1989 levels under the international Rio Convention on Climate Change.

Under this policy, the taps have been opened on domestic petroleum output, driving up oil production to record levels and contributing to more than doubling exports of natural gas by the turn of the century.

Norway has daily average oil production of more than 3m barrels and is expected to boost exports of natural gas to between 70-80bn cubic metres by the end of the decade from a current level of around 27bcm.

Edinburgh-based energy analyst Wood Mackenzie forecasts that this year Norway's oil output will rise 11 per cent – after having risen 13 per cent in 1994 – to average around 3.3m barrels a day.

Moreover, Norway is poised to become the world's second largest exporter of crude oil, this year or next, behind Saudi Arabia and overtaking Iran.

Mrs Gro Harlem Brundtland, the prime minister, has sought to distance herself from the conflict of interests the energy versus environment dilemma poses to save face as head of the United Nations commission which produced one of the most influential documents this century on global environmental issues, earning her global recognition as a champion of green causes.

The unenviable task of reconciling energy policy with environmental concerns has been taken on by Mr Jens Stoltenberg, Norway's industry and energy minister. Norway in general, and Mrs Brundtland specifically, have in recent years been criticised at home and abroad for putting energy before environment.

Mr Thorbjorn Bensen, environment minister, reluctantly concedes Norway will not achieve its Rio emissions goals.

But Mr Stoltenberg argues that by stepping up exports of natural gas, Norway will contribute to reducing western Europe's noxious emissions.

Members of the Organisation of Petroleum Exporting Countries, however, blame Norway for undermining world crude oil prices with record levels of oil production. Earlier this year, Mr Stoltenberg led a large delegation of Norwegian businessmen to the Middle East where he sought to build a dialogue with Opec countries.

At the time, he forecast Norway's crude oil production this year would reach around 3m barrels a day, but it is now clear that output levels could be significantly higher. Nevertheless, Mr Stoltenberg has rejected calls from both Opec and domestic politicians to reduce production in a bid to bolster oil prices.

In a poll undertaken earlier this month by NRK national radio, only one oil company operating in Norway agreed with the view that oil production should be cut to boost oil prices.

On environment concerns, Mr Stoltenberg argues that the recipe for achieving proper balance between energy production and the environment is through international co-operation and radical reform of energy taxation.

He believes the Norwegian example of taxing carbon emissions instead of taxes biased towards fuel imports as a means of protecting ailing indigenous energy industries is the answer.

Mr Stoltenberg sharply criticises countries that subsidise national coal production and force electricity utilities and industry to buy local coal. "Coal is more polluting in all respects compared to oil and especially compared to natural gas," he told delegates at a conference in August.

But Norway's energy versus environment arguments are designed to benefit a country which has become more hooked on petroleum than ever because of the revenue it generates to underpin a lavish welfare society.

Norway also has western Europe's most abundant supplies of uncommitted natural gas reserves and no domestic market in which to sell it. It has so far failed to convince its Nordic cousins of the benefits of importing Norwegian gas.

Paradoxically, soaring oil and gas output – during each of the past 25 successive years since the discovery of petroleum on Norway's continental shelf – may be beneficial in helping European neighbours reduce carbon dioxide levels, but means Norway's own noxious emissions have risen because of the energy consumed to produce and transport the fuels.

Mr Stoltenberg justifies the energy argument by pointing out that the overall effect of Norwegian gas exports to the continent is positive as long as at least 5 per cent of these exports replaces coal. But many environment organisations consider this a dubious explanation for justifying Norway's aggressive energy policy.

Oil companies operating in Norway argue that tax on carbon dioxide emissions at oil and gas fields are undermining efforts to reduce costs and improve competitiveness because they represent between 20 and 25 per cent of total operating costs at some offshore installations.

Mr Harald Norvik, chief executive of Statoil, the Norwegian state oil and gas company, points out the burden imposed by the tax as the industry struggles to reduce costs in the face of low oil prices: "Taking into account that emission per unit produced is already low, I am led to think that this is a general tax rather than an energy tax to improve the environment."

Mr Norvik argues that thanks to new and efficient technology, carbon dioxide emissions from Norwegian production have from 1989 to 1992 increased by just 2.5 per cent while production levels shot up by 24 per cent.

He believes further improvements to emissions from oil and gas production would be costly to achieve because the greatest potential for reductions has already been exploited.

But noxious emissions from Norwegian petroleum activity will continue to increase as petroleum production rises in the years ahead.

■ **Shipping:** by Hilary Barnes

Storm over tax regime

Afraid that owners may choose to go abroad, an industry united front is seeking relief

"The Norwegian shipping industry is in good shape and there is reason to be confident about the future. The only question is whether that future will be in Norway or elsewhere."

Mr Rolf Saether, managing director of the Norwegian Shipowners' Association, is blunt in presenting the issue which the industry believes it is facing.

The answer, the industry hopes, will be given in a white paper on the maritime industry which the government is due to publish next month.

Mr Saether represents the owners, but he is able to speak with the assurance that his view is shared by the entire shipping industry. As the result of an unusual initiative, the owners, the trades unions, the shipbuilding industry, the suppliers of maritime equipment, representatives of the brokers, agencies, classification societies and the maritime financial service sector have come together to produce a report which makes joint recommendations to the government on the future of Norwegian shipping.

"For the first time ever, we were all in agreement," says Mr Saether.

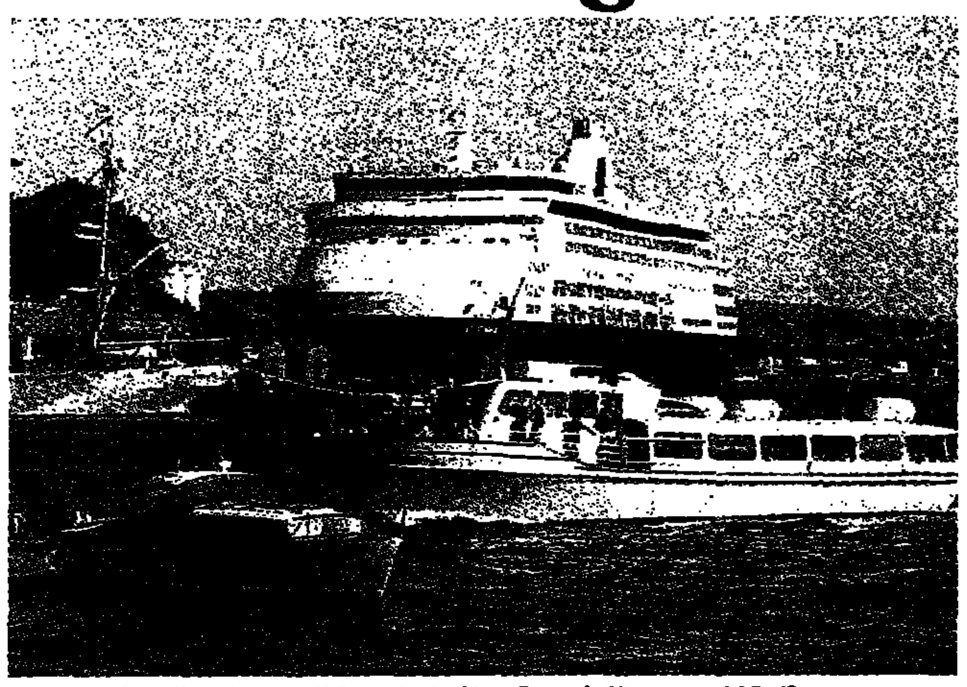
The background for the emergence of the united shipping industrial front is twofold. Firstly, the industry learnt in 1987 that a concerted effort can sometimes persuade the government of the day to make changes to the regime under which it operates in order to ensure international competitiveness. This was the year in which the Norwegian International Ships Registry (NIS) was established. The NIS helped to provide a solution to the problem of the extremely high cost to Norwegian owners of Norwegian crews and officers by adjusting the tax rules.

Secondly, a tax reform implemented in 1991 is seen by the industry as presenting a new threat to Norwegian shipping. By acting together, the industry hopes, once again, to persuade the government to assist it to remain competitive.

Until 1991, shipping companies in effect paid very little tax. The new tax regime subjected them to the same, 28 per cent, rate of corporate profits tax as other industries. More importantly, it removed the special regulations which in the past enabled shipping companies to reduce taxes paid to a minimal level.

The government's argument for the reform was, to put it briefly, that a misapplication of capital occurs if it is invested in an industry which is unable to make a post-tax profit of the same order as other industries. As Mr Saether says, however, it is not a simple matter to impose a system of tax neutrality on shipping, which is a mobile industry operating in a global environment. If the companies find the Norwegian tax environment detrimental to their interests, they will move elsewhere.

A few companies have left Norway since 1991, but there has been no mass exodus. But, says Mr Saether, this is partly because the intervening years were not particularly good ones for shipping; profits, and hence tax liabilities, were modest. Many of them have also been able reduce tax liabilities by carrying forward losses from earlier years. However, better times will give the companies a stronger incentive to reconsider their location.



A great shipping nation – but could high taxation lead to a dispersal of its commercial fleet? *Tony Andrews*

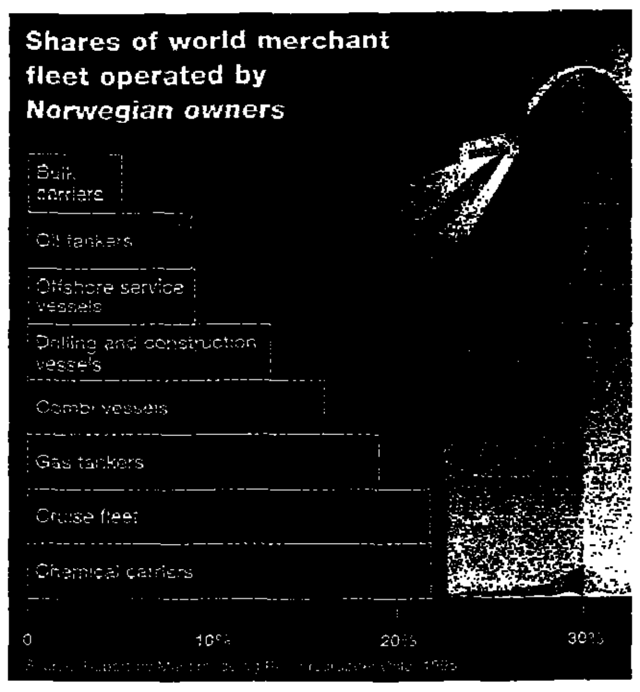
The industry's report to the government gives an example of how the present tax regime affects a Norwegian company. Two of the world's largest companies in chemical carriers are Odfjell Tankers, part of the Storli group, which is listed on the Oslo Stock Exchange, and Stolt-Nielsen, a former Norwegian company now based in the US. Storli has a world share of the market in chemical carriers of about 18 per cent compared with Stolt-Nielsen's 22 per cent.

However, the US-based company operates under a low tax regime, which means that over a period of years Stolt-Nielsen will be in a better position to build up the capital required for fleet renewal. This will be a direct threat to Storli's ability to maintain its market share.

Norway is by tradition a great shipping nation, its people forced by geography to take to the sea for their livelihoods, an orientation which was only strengthened by the discovery of oil and gas under the Norwegian continental shelf. Today, Norwegian owners operate and control just under 10 per cent of the world's merchant fleet, and own about 5 per cent of it.

In the mid-1970s, the industry's position was even stronger. Norwegians owned about 10 per cent of the world's merchant shipping, but the oil price shocks, combined with an unfavourable development in Norwegian domestic costs, caused a decline. The slide was brought to a halt when the NIS was established.

Meanwhile, the companies have diversified into sectors of shipping with a higher added value and requiring specialist technical and operational knowledge, such as chemical carriers, gas carriers, auto carriers, oil production vessels, cruise ships and offshore supply vessels, in all of which Norwegians have a significant share of the world market.



> If the shipping companies start to leave Norway, then the support industries will wither away

The manpower on board Norwegian ships in international trade and on oil rigs totals about 20,500, with another 7,700 on board domestic shipping (mainly ferries). Another 50,000 or so are employed in the maritime service industries, including 11,500 in shipbuilding, 13,000 in maritime supplies and 6,800 in the offshore supply industry.

The report shows that Norway accounts for 15 per cent of the world offshore industry, 30 per cent of the maritime insurance industry and 15 per cent of the world fleet. Of the world's stock exchange-listed shipping companies, 30 per cent are listed in Oslo. However, the shipping industry environment depends on the presence of Norwegian shipping companies in the country. If they leave, says Mr Saether, the support industries will wither away.

The key recommendations in the report would restore a tax regime which leaves them no worse off than companies in other countries with a large shipping industry – an immediate 20 per cent depreciation write-off on the value of a ship as soon as an order contract is placed; a 20 per cent "environmental cost" depreciation write-off for purchasing new ships and, at lower rates, for ships under 10 years old; and freedom for owners to decide, within a span of four years, when the capital gain from the sale of ships should enter the accounts for tax purposes.

Pending the white paper, ministers have continued to say that the government cannot see that shipping alone should be made a special case for tax reasons, but it is a fair guess that the last word on this subject will not be heard for some months.

■ **Politics:** by Hugh Carnegy and Karen Fossli

Labour sails on unchallenged

Opposition splits have played into the hands of the government

Norway's political scene was fractured by the unsuccessful campaign to join the European Union. A year after the referendum delivered a clear rejection of membership, the traditional alignments have yet to reassert themselves.

Ironically, the chief beneficiary has been the ruling Labour party, the country's dominant political party, which threw the full authority of Mrs Gro Harlem Brundtland, the prime minister, and the rest of the party leadership behind the campaign for a Yes to the EU.

In similar circumstances in 1972, when Norwegians first rejected EU membership, the Labour party was plunged into crisis. Its ranks deeply split on the issue, the then Labour government resigned. This time, however, the picture was very different.

Despite being in a minority in parliament, Mrs Brundtland's government has sailed on unchallenged. The party quickly closed ranks behind her – although almost half of Labour supporters voted No – and opinion polls have shown very strong support for the government's fall-back policy of pursuing as close relations with the EU as possible without being a member.

The chief reason for Labour's success has been the deep splits within the ranks of the opposition parties, which have led to the absence of any credible alternative government.

In the past, non-Labour governments were made up of coalitions led by the Conservative party, traditionally the second largest party, and including the Centre party – the party of the farming and rural communities – and the Christian Democrats. But this alliance was torn apart by the fierce anti-EU position of the Centre party, which clashed with the equally strong pro-EU stance of the Conservatives.

The most recent non-socialist coalition, formed in 1989, lasted less than a year before it collapsed under the strain of the then pending application to join the EU. Since then, the Centre party has been led by Ms Anne Enger Lahnstein, who became the champion of the successful anti-EU campaign and who continues to hold the party to a position opposing even Norway's membership of the European Economic Area agreement.

"The Conservatives would very much like to build a credible alternative government alliance, but it is impossible so long as Ms Lahnstein is the Centre party leader," says Mr Henry Valen, a political scientist at Oslo's Institute of social studies. "She has also moved the party to the left – in some senses to the left of Labour."

Compounding the difficulties facing Mr Jan Petersen, the leader of the Conservatives, is the recent rise in September's local elections of the populist right-wing Progress party, led by Mr Carl Hagen, a highly skilled media performer.

Progress takes an aggressively anti-immigrant stance – some senior party figures were revealed recently to have links with neo-Nazi groups – and has been ruled out as a potential coalition member or supporter by the Conservatives and its erstwhile partners. But it could well hold the balance of power after the next general election in September 1997.

"As long as there is not a real alternative to Labour, it is hard for the opposition parties to hold the focus of political debate. The Progress party has exploited that vacuum and gained a lot of attention," says Mr Valen.

Mr Petersen appears to have had some success in rebuilding support for the Conservatives since the party slipped behind the Centre in the 1993 general election when its pro-EU stance lost it votes. But here again, it is faced with a problem – the adroit shift to the centre by Labour under Mrs Brundtland.

■ **Barents co-operation:** by Hilary Barnes

Trying to work with Russia

Both sides of the border should benefit but, despite progress, conflicts still occur

Norway sets considerable store by co-operation with Russia in the Barents region, where Russia and Norway have a common land border.

At government level, the Russians reciprocate partly, perhaps, because Mr Andrei Kosyrev, the Russian foreign minister, is elected to the Duma, the Russian parliament, by the voters of Murmansk.

At the private level, the experience of Norwegian businesses which have tried to invest in the area has not been uniformly successful.

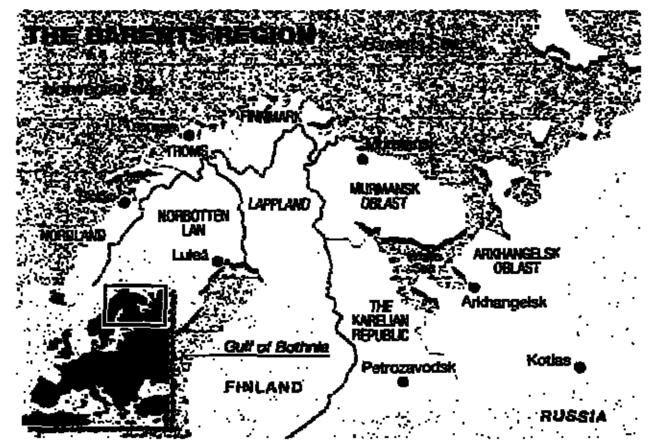
On the other hand, a Norwegian environmental group, Bellona, seems to have gained the confidence of local people in Murmansk by helping the Russians to chart the extent of industrial and nuclear pollution in the region. But Bellona fell foul of the Russian secret police in October, when its computers were confiscated from the Murmansk office.

Although Mr Kosyrev has made several visits to Norway this year and is chairman of the Russian-Norwegian trade commission, project co-operation is not developing at breakneck speed. One reason, as a Norwegian diplomat explained, is that the north-west region of Russia was and is an extremely important military base area.

The mutual benefits from co-operation, however, are potentially great. On the negative side, the region suffers from serious environmental pollution. Western assistance – both money and technology – could do much to help. The pollution is of two kinds – from the metallurgical and oil industries and from radio-active nuclear wastes of both civilian reactors and decommissioned reactors from naval submarines and icebreakers.

On the positive side, the region is rich in mineral and hydrocarbon resources and forests. It is potentially one of the world's largest oil and gas producing regions.

The entire region, on both sides of the border with Russia, has much to gain by re-establishing the trading, cultural and personal relations that flourished for centuries before they were stopped in 1917 by the Russian revolution, as joint statements by the Russians and the Nordic governments regularly emphasise.



Norway's main bilateral financial commitment is an offer of NKr300m to help modernise the Pechenga Nickel works at Nikel, close to the Norwegian border. The plant is a major source of pollution. The condition of the Norwegian offer is that the Russians invest a similar sum. As much again must be raised from other sources. So far, the fate of the project is undecided.

Multilateral Barents co-operation is formalised through the Barents Council and the Barents Regional Committee, both set up in 1993. Norway, Finland, Sweden, Russia and the European Union belong to the council, which meets at ministerial level. It is the only institution for co-operation between Russia and western European countries in which the Russians are currently in the chair. The council is supplemented by the regional committee, to which the political leaders of the five Nordic counties, Norway's Nordland, Troms and Finnmark, Finland's Lappland and Sweden's Norbotten, and three Russian regional administrations, the *oblasts* of Murmansk and Archangel and the Republic of Karelia, belong.

Regional co-operation has generated a variety of projects, few of which make a major drain on financial resources, but some of which, such as assistance in improving the standards of drinking water, can have useful and tangible benefits. The Barents Council's work is still in its early stages, but at a meeting of foreign ministers in Finland in October the council agreed to recommend a programme of 15 infrastructure projects, including improvements in road and rail communications, harbours, and airports, and modernisation of the Pechenga nickel works and the Kandalaksha aluminium works.

All these projects, however, are dependent on financing from international sources, which has yet to be raised.

Just how difficult it is for private companies to work in the region has been demonstrated by the case of a joint venture between R.S. Björn, a wood-working company from Troms in Norway, and Russian partners. Björn put NKr15m – mainly in the form of machinery – into a company in Archangel for production of windows and doors.

Initially, the venture, Rossnor, seemed to be a success, but at the beginning of this year one of the Russian partners, Mr Vladimir Ukhin, the manager of the Rossnor factory, complained that the factory was making a loss. The reason, he alleged, was that the machinery supplied by the Norwegians was old and useless. A Russian court has denied Mr Ukhin's claims, but this has not made any practical difference. The partnership has more or less broken down.

The Norwegians suspect the real problems are political. As they point out, Mr Ukhin is a candidate in next month's Russian parliamentary elections for Mr Vladimir Zhirinovsky's right-wing nationalist party, which has little time for foreign involvement in Russia of any kind.

A more encouraging story is told by Bellona, a Norwegian environmental organisation, though even this may still have an unhappy ending. Bellona has spent six years in winning the co-operation of local people for mapping and identifying the extent of pollution in north-west Russia.

It took numerous meetings before the Russians were prepared to accept that Bellona was trying to do something that could be helpful to the people of the region, a period when, says Mr Frederic Hauge, Bellona's leader, he learnt: "In the west you do not do business with your friends; in Russia you do not do business except with your friends."

Bellona has produced technical reports ("We were careful not to use too many adjectives") on the extent and degree of pollution and is working on further reports. Its office in Murmansk now employs five or six young Russians, while four former naval captains are working on reports on nuclear waste, most of which comes from decommissioned submarines.

However, in October the Russian security police raided Bellona's offices, alleging that the company was storing sensitive military information in its computers, which were confiscated.

Bellona's reading of this incident is that the raid was instigated by nationalist and communist elements, and that the problems are all part of the campaign for the elections to the Duma in December. Mr Hauge, however, is relying on the strong local popular support for the work which Bellona is doing to persuade the security police to let the company get on with it.

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CHINA

New stability eases pains of transition

Although it is impossible to underestimate the complexity of the government's task, progress is being made, writes Tony Walker

China may have left the first rush of its historical economic transformation behind, but the process rumbles on. As the half-way point of the last decade of the 20th century approaches, Beijing appears to be making progress towards its twin goals of building a market-based system and achieving integration with the international economy.

However, reformist zeal ebbs and flows. Challenges abound. Chinese leaders face an extraordinarily complex task in their efforts to advance economic reform on many different fronts – from dealing with the problems of debt-burdened state enterprises to the intricacies of changes to the trade and financial systems.

But in spite of the many difficulties besetting the economy, including inflationary pressures, rising unemployment, a weak revenue base and a growing clamour from impoverished inland regions for financial assistance, the outlook is more positive than it was a year ago. In addition, difficulties associated with the political transition appear to be easing.

Chinese leaders are also beginning to talk more openly again about their plans for the economy – a sign not only that there is a fair degree of consensus at the top about the way forward but also that China's rulers are probably more confident about their ability to advance reforms.

Mr Zhu Rongji, the executive vice premier in charge of the economy in a rare interview provided specifically for this survey (see story page 3), made it clear that the fight against inflation would remain the government's number one priority. But he also indicated that there would be a more concerted effort to tackle the problem of loss-making state enterprises, commercialise the state banks (which are weighed down by non-performing loans), push ahead with the reform of the financial and trade sectors, and effect China's re-entry into Gatt and its membership of the World Trade Organisation.

His announcement that China planned to move to currency convertibility on the current account within the next year or so underlined what appears to be a renewed commitment to external sector reforms. His reference to a lowering of tariffs as a "must" – China's average tariff stands at 35 per cent compared with 15 per cent for other developing countries – revealed an appreciation of the broader implications for the domestic economy.

Mr Zhu, who has carried much of the responsibility for the fight against inflation – which reached 21.7 per cent last year – appears to have drawn confidence from the government's success in curbing price rises to an expected 15 per cent this year. He insists, however, that the battle is far from won – which is why tight credit policies will not be relaxed, except for selective assistance to key sectors and industries.

"The purpose of the macro economic control measures is to control inflation. However, at this moment we're not able to say we have already fulfilled all of the targets. The soft landing is not complete yet. Therefore, the macro economic control measures will continue," he says.

Mr Zhu has good reason to be wary. China's success in reducing inflation has been bought partly at the cost of reimposing price controls on basic commodities and services. The economy, which is continuing to simmer – with GDP growth this year expected to be around 10 per cent compared with 11.8 per cent last year – could quickly boil over, as it did after Mr Deng Xiaoping issued his famous demand in 1992 for speedier economic development.

However, a repeat of that call from the ailing architect of China's modernisation is most unlikely. The new generation of leaders was unnerved by the problems it spawned. China has avoided hyper-inflation for the moment, but strong inflationary pressures could speedily re-emerge, feeding dissatisfaction across the country, as they did in 1993 and 1994.

Unhappiness was especially profound in potentially volatile industrial cities, where unemployment may now be as high as 20 per cent. The peasantry was also hit hard: rural areas – where the rapidly increasing costs of pesticides and fertilisers had further sqeezed meagre incomes – had not enjoyed the same improvements in living standards as the towns.

While China may have improved the lot of its 800m-900m peasants since the commune system was dismantled and private commerce was permitted 15 years ago, the livelihoods of a vast number of farming families remains precarious. Average rural holdings of 0.42 hectares per family means the scope of farmers is severely limited.

With surplus farm labour estimated at up to 200m, China's management of its vast rural populace represents a huge challenge that will endure well into the next century. Between 1980, the year Mr Deng's reform programme effectively got underway, and 2000, China's population will have grown by 300m to 1.3bn. (It passed the 1.2bn mark in February.) Assuming birth control measures continue to be relatively effective, the figure will level off at around 1.6bn in the year 2050.

These statistics help to put into perspective the awesome task facing China in its efforts to continue providing improved living standards for a restless people whose hopes have been raised. China's rulers understand that an uneasy compact with their subjects is based not on mutual regard, or necessarily even fear, but on their ability to satisfy aspirations for a better life. Should they prove unable to deliver, retribution could be severe.

Population pressures, poverty, and surplus rural labour drifting to the cities are all part of a wider problem that is presenting the authorities with one of their biggest headaches: the widening gap between wealthier coastal regions and the impoverished hinterland. The regional disparities question has emerged as a critical challenge for Beijing, which is being obliged to address the issue with a new package of policies, including additional budgetary assistance to the interior. However, Chinese officials admit that for the time being the "rich-poor gap" is likely to become wider not narrower.

This was also the verdict of a recent World Bank study, *China: Regional Disparities*, which concluded that the gap between the coast and interior regions is "large and worsening". It reported that since 1978, the year Mr Deng re-emerged to take charge, that gap has widened to "nearly 2-to-1, with the increase accelerating since 1985".

While China's leaders are preoccupied by economic issues, they also continue to be engaged in a game of transitional politics. The fifth plenary session of the 14th Central Committee held in Beijing in late September approved new appointments to the Central Military Commission – China's high command – and these were thought to have bolstered the president, Mr Jiang Zemin.

Mr Jiang has become more assertive this year as an enfeebled Mr Deng has faded further from the scene – an indication that the way is now relatively clear for him to put his own stamp on the leadership. The last time China's patriarchal leader was seen in public was in early 1994. His health is thought to be so precarious that he is virtually beyond influencing developments; although as long as he breathes China's new generation of leaders will feel somewhat constrained.

Prospects for a smooth transition appear to have been enhanced, but this does not preclude a power struggle at some point after Mr Deng goes. The Communist Party has a legacy of unresolved issues that cannot be dealt with while he lives. Not least of these are the events leading up to the killing of hundreds of demonstrators involved in pro-democracy protests in and around Tiananmen square in 1989. At some point, a serious accounting of what took place will be necessary, and that will no doubt include an assessment of Mr Deng's own role.

China's leaders have this year also been embroiled in the issues of Taiwan and Sino-US relations. Relations chilled between Beijing and Washington over a visit in June to the US of Mr Lee Teng-hui, president of Taiwan, but a meeting between the US president, Mr Bill Clinton, and Mr Jiang in New York in October appears to have helped improve the climate. Taiwan, and such issues as arms transfers, human rights, China's entry to the World Trade Organisation, intellectual property rights and a widening trade gap in China's favour, are, however, likely to mean a continuing uneasy relationship.

China's hard-pressed rulers are set for another difficult year.

Under construction: a new era. The image of Mao still dominates Tiananmen Square but publicity posters showing both the ageing Deng and President Jiang emphasise it's time for another generation Reuters/Adrian Bradshaw

IN THIS SURVEY

■ **Politics:** by Tony Walker

Deng's successor treads careful line

To secure his position, the president is trying to appease the factions

When the 14th Central Committee of the Chinese Communist Party concluded its fifth plenary session in Beijing in late autumn its final communique revealed that party leaders continue to be more preoccupied with housekeeping than they are with grand policy initiatives.

Appointments to key posts provided the eye-catching detail of the plenum's deliberations, rather than new policy directions.

Nevertheless, personnel changes, especially in the military, indicate that further progress has been made in securing an orderly transition to a post-Deng Xiaoping era.

The new appointments appear to have helped President Jiang Zemin, although his attempts to strengthen his position will continue to be subject to the factional checks and balances that are part and parcel of the Chinese system.

Mr Jiang, who has been working assiduously to cultivate the military, saw several of his supporters, including General Chi Haotian, the defence minister, added to the powerful Central Military Commission (CMC) – China's high command.

But, at the same time, it was clear that Mr Jiang did not have everything his own way. He would probably have preferred it if General Wang Ruilin, the long-serving private secretary to Mr Deng, had not found a position on the CMC, but the fact that he was promoted indicates that – despite poor health – the patriarch's influence continues.

China's leader was also obliged to accept the enduring presence of the CMC vice-chairmen Generals Zhang Zhen and Liu Huaqing. The two Long March veterans were installed several years ago by Mr Deng to help oversee the leadership transition.

Joining Generals Zhang and Liu, and Defence Minister Chi as vice chairmen of the CMC is General Zhang Wannian, the 67-year-old former chief of the army General Staff. Gen. Zhang is not conspicuously associated with any faction, but his appointment is considered a plus for Mr Jiang since he represents relatively new blood at the top of the Chinese military, and owes his promotion partly to the intervention of the president.

Mr Jiang, China's 69-year-old leader, suffers from lack of combat experience and thus credibility with the military. His heightened attempts recently to strengthen links with the generals is perhaps the clearest indication yet that China's leadership transition has entered something of an "end-game". Since his surprising elevation to General Secretary of the Communist Party in June 1989, after the Tiananmen Square massacre, and subsequently to the posts concurrently of state president and chairman of the CMC, Mr Jiang has trodden a cautious line, more self-effacing than assertive.

But this year he has appeared determined to raise his profile in China and abroad. He is travelling overseas more frequently and in his domestic appearances he has tried hard to assume some of the clothes of the dominant figures of post-1949 revolution, namely Mao Zedong and Mr Deng.

At September's fifth plenum, Mr Jiang's 10,000-word keynote address was entitled: "On the correct handling of the 12 major relationships". This recalled Mao's polemical address in 1956 in which he sought to rally the nation with a speech "On the 10 great relationships".

Mr Jiang, in his domestic politicking, has been behaving a bit like a politician running for office in the west, seeking to secure his position without alienating the military and the liberal and conservative factions.

In his efforts to cultivate liberal elements he paid his respects earlier this year at the grave of Mr Hu Yaobang, the former party boss, who was dumped in 1987 because he was regarded as too reformist. In his attempts to appeal to the conservatives Mr Jiang is reported to be backing a new literature college to be named after Mao and built in Changsha, Hunan, near Mao's birthplace.

Mr Jiang also chose to bare his teeth in the political infighting that goes with the power games at the top of the Chinese system. It was Mr Jiang, it is said, who spearheaded moves against Mr Chen Xitong, the former party secretary of Beijing, who was removed from the politburo by the plenum after he was accused of misusing his position.

Mr Chen is easily the most senior official to have been ensnared in the anti-corruption campaign that was launched in August 1993. The campaign has ebbed and flowed in line with the party's need to satisfy what it sees as public demand for action against officials.

But the Chen Xitong episode was revealing since its handling appeared to suggest a firming of the consensus among top officials of the need for a stronger anti-corruption campaign. The Beijing municipality had become notorious, but it is doubtful that Mr Jiang would have moved against Mr Chen had he not been a political rival.

The tough Beijing party boss had made little secret of his reservations about Mr Jiang's ability to take command of a country of 1.2bn in what is being described as the "new era" – the post-Deng period. Many Chinese continue to share those reservations, in spite of assiduous propaganda attempts to amplify Mr Jiang's position as the "core" of the leadership.

While China's leader has made progress in the past year in his efforts to strengthen his grip on power, he still has to convince people he will prove a durable figure in the emerging epoch.

■ **Foreign policy:** by Peter Montagnon

The domestic objective prevails

Diplomatic efforts seem to focus on protecting national sovereignty

"China has posed no threat and committed no aggression against other foreign countries today, nor will it do so when it is developed and powerful in the future. The so-called China threat is nothing but an absurd argument to intimidate people."

Thus Mr Qian Qichen, foreign minister, sought to calm fears about China's foreign policy during his recent visit to London. That China has acquired something of a reputation as a bogeyman is not surprising, given its strident response to this summer's US trip by Mr Lee Teng-hui, Taiwan's president, and its unyielding claim to sovereignty over the disputed Spratly islands in the South China Sea.

But Mr Qian's remarks were a reminder that China's motives might be misunderstood. All the main foreign policy issues which have preoccupied Beijing this year – Taiwan's efforts to gain international recognition, the return of Hong Kong in 1997 and the Spratly islands – involve China's deep concern with what it perceives as its own sovereign integrity. These issues have caused worrying clashes, notably with the US, but it would be rash to conclude that China has switched to a more assertive tack.

Chinese and western analysts see two main forces behind Chinese diplomacy. The first is Beijing's preoccupation with the task of securing internal stability and economic development. This leaves little room for expansionist ambitions abroad. Instead, the main diplomatic effort aims to prevent the domestic objectives being thwarted by outsiders.

The second is the belief, based on a view of pre-revolutionary history as a time of humiliating foreign domination, that one nation should not interfere in the internal affairs of others.

China reacts strongly when it feels its sovereignty infringed, as in the case of Taiwan. It resents US human rights activists who it regards as interfering with its internal affairs.

But unlike the US, China has no soldiers on foreign soil. There is even, as President Jiang Zemin noted in New York last month, ambivalence towards UN peace-keeping operations when they are simply a disguised form of interference in the internal affairs of others. This is a far cry from a vision of a new superpower bristling with extra-territorial ambitions.

Instead, a main thrust of its diplomatic message is that a stable and prosperous China is the best guarantee of regional security. "If China, a country with a quarter of the world's population, remains underdeveloped in prolonged poverty and backwardness, that will cause serious consequences to peace and stability in the Asia-Pacific region and in the world at large," President Jiang told the UN.

Beijing's acute anxiety over Taiwan should probably be seen in this context. It cannot afford to concede the principle of secession, least of all when economic and social transition risks being divisive at home.

Taiwan's drift towards support for a unilateral declaration of independence as it prepares for its first free presidential election next year could hardly have come at a worse time.

China's immediate objective is to maintain Taiwan's international isolation in the face of this drift. Its response to President Lee's visit may have seemed excessive. Bilateral relations with the US sank to a nadir, several official exchanges were cancelled and China's ambassador to Washington was recalled.

Yet Chinese diplomats say Beijing had to stop what appeared to be a rehabilitation of Taiwan. President Lee's US trip must be seen against the backdrop of official Taiwanese contacts with Japan at last year's Asian games and a visit to Taipei by Mr Federico Pena, US Transport Secretary.

Most countries would now think twice before making any new concessions to Taiwan, but the damage to China's relationship with the US has been considerable.

For both sides the relationship is a crucial one. But an atmosphere of mutual suspicion remains, despite the relatively positive tone set by the meeting of Presidents Clinton and Jiang in New York last month.

In contrast, the relationship with the UK – described by some Beijing analysts as the second most important bilateral one after the US as the handover of Hong Kong draws closer – has turned more cordial – symbolised by this summer's agreement on one vexatious issue, the establishment of a Hong Kong court of final appeal. Though the agreement involved significant concessions by Britain, China's desire for a positive relationship is evident from its moderate response to the defeat of pro-Beijing parties in September's Legislative Council elections.

As for the Spratly dispute, China has also taken a more moderate tone since it met other Asian countries in Brunei in August.

Perhaps China recognises that, despite its naval build-up, it is still relatively weak militarily. Any trial of strength with the rest of Asia in the coming years is likely to be fought largely on the economic front.

■ **Agriculture:** by Peter Montagnon

Demand outstrips supply

Feeding the population and maintaining farming incomes are now priorities

Worries about food shortages as China's growing population becomes more affluent have made agriculture a priority issue for the central government.

Last year's warning by the US economist, Mr Lester Brown, of the Worldwatch environmental research group, that China could face a grain shortfall of 216m tonnes by the year 2030 set off alarm bells in the capital. It has sparked lively debate both on the likely size of the deficit and on appropriate policies for containing it. Agriculture features large in the new five-year plan.

"One of the two major tasks of China's agricultural and rural economic development until the end of the century is to ensure steady growth of major agricultural products, including grain, cotton and edible oil," Mr Liu Jiang, agriculture minister, told a conference earlier this month.

The other, he said, was to deal with surplus labour in rural areas. About 100m rural dwellers had no real jobs and this had caused a wave of migration to the cities.

Rural development is a challenge of daunting dimensions. Three quarters of China's 1.2bn people live in the countryside. China must offer incentives to farmers to produce food and keep prices affordable to urban dwellers. It must prevent too many switching from grain to more lucrative cash crops such as fruit. It must develop light industry to absorb surplus labour without losing too much arable land to factories.

Present policy is groping towards the right balance. While some alternative jobs are being created, the government also aims to maximise farm output through investment in technical know-how, infrastructure and improving the quality of inputs such as seeds and fertilisers.

But the future is not necessarily as bleak as Mr Brown suggested. China claims it can cope with higher demand for food. Other experts say any shortfall may be smaller than he predicted.

A study in the summer by economists from the China National Rice Research Institute, Stanford University and the International Food Policy research Institute said China would only need to import 50m tonnes of grain annually by 2020.

More recently, Japan's OECF aid organisation said the shortfall might be 136m tonnes by 2010, but added that the amount could be halved with the right policies.

China has an impressive record for increasing grain output since the 1978 agricultural reforms. Production increased by 46 per cent to 445.1m tonnes in 1994, but the strains are beginning to show as the more industrial coastal provinces become less self-sufficient. Increased meat consumption has intensified demand for feedgrain, and western experts say about 100,000 to 300,000 hectares are lost to grain production each year. China already imports wheat, rice, maize and soyabeans, though in modest amounts.

As one incentive, the government last year increased by 40 per cent the official grain procurement price at which the state buys up to 30 per cent of farmers' output. But western analysts say the increase was swallowed up by higher government levies and taxes.

China has also recently introduced a scheme making provincial governors, not central government, responsible for ensuring supply and demand are balanced in their territory.

They can import from and export to other provinces, but they may not engage in international trade. This is designed to prevent them from buying cheap grain at the procurement price and selling it at a high price on world markets, but it leaves Cerolls, Beijing's trading company, with a lucrative monopoly.

It is too early to tell what impact this system will have, but the emphasis on trading between the provinces attacks an important weakness in the sector. The notion of competitive advantage is alien to Chinese agriculture. At all levels – family, township, provincial and national – the instinctive concern is with self-sufficiency in all products, regardless of how easy they are to grow.

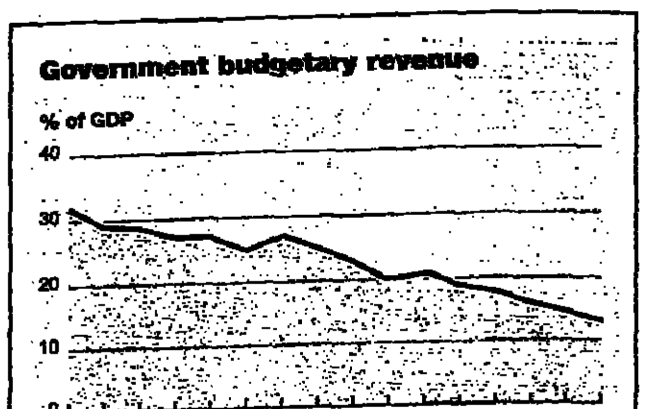
Trade between provinces is limited and impeded by poor transport connections. "When we have abundant harvests it is hard to sell agricultural products in other provinces. Even if we do sell them, it is hard to get paid," says Mr Wen Zhengjing, director of Sichuan's agriculture department.

Encouraging more internal trade might increase efficiency and specialisation in Chinese agriculture, but a liberal approach is less likely to apply to international trade. Central government views China's ability to feed its population as a matter of national security. It does not want to depend on imports, least of all from the US, the motives of which it suspects. China fits into the camp of those who want to exclude the farm sector from trade liberalisation discussions in the Asia-Pacific Economic Co-operation forum.

China has not yet gone down the emphatically protectionist route of countries such as Japan and South Korea, which banned rice imports to help farmers as their economies industrialised. But protection of farm trade may be one way of preserving rural incomes.

"China is at the cross-roads," says Mr Wen Hai of Beijing University's Centre for Economic Research. "Either we choose a free trade policy and import at low prices, or we start to build up trade barriers. Most policy-makers prefer protection."

Worries of a grain shortfall have focused efforts on farm output AP



Source: Ministry of Finance; World Bank

Mixed record on tax reform

The fiscal system in place until the end of 1993 suffered from three fundamental defects: the dependence of central government on the uncertain fulfilment by local governments of contractual obligations to transfer revenue; the lack of consistency, partly explained by the incentives offered to favoured enterprises by local governments; and the steep decline in the ratio of budgetary revenues to gross domestic product, from 34 per cent in 1978 to 13 per cent in 1994 and, within this, the falling share of central government, from about 60 to 40 per cent.

These defects had to be remedied. To do so, the reform introduced in January 1994 created a national tax administration; introduced a value-added tax; unified the taxation of enterprises and of personal incomes; and established a transparent division of revenue between central and local government, which was expected to raise the central government's initial share to about 60 per cent.

Mr Xiang Huaicheng, vice-director of the state administration of taxation, and his chief, Mr Liu Zhongli, the finance minister, argue that this complex transformation has proceeded without observable ill-effects. Unauthorised fiscal exemptions by local authorities have been curbed, though not, admits Mr Liu, eliminated.

VAT generates 58 per cent of all revenue. Receipts from the industrial and commercial taxation levied on 14.1m enterprises were Yn455.3bn in 1994, up 26.6 per cent from 1993. They reached Yn374.1bn in the first nine months of 1995, up 29.1 per cent over the same period in 1994.

Significant administrative problems remain. While 50 cities are now linked by computer, within two years computerisation should cover 370 cities, which generate more than 70 per cent of total revenue. Legislation must be completed for aspects of the system now governed by interim regulations.

More important still are measures to curb evasion and fraud, a noteworthy example being the explosion of dubious claims for VAT export refunds, which compelled the government to lower the rebate rate, from 17 to 14 per cent, as of July 1 1995.

Yet the most urgent problem of all is the failure of the reform to reverse the steep decline in the share of fiscal revenue in GDP, which fell by a further two percentage points last year. This was partly because inflation affected nominal GDP, which grew by 40 per cent, much more than fiscal revenue, which rose only 19 per cent. Performance in the first three quarters of 1995 was somewhat better, but the revenue ratio merely remained stable.

Mr Xiang's response to this concern is that the aim of reform was not to increase the tax burden, but to improve the fiscal mechanism. This may be true but the continuing fiscal drought creates huge difficulties for China: it undermines the central government's power to assist poorer regions; it encourages parts of government to go into business, confusing public and private interests; and it has compelled government to rely on off-budget resources, particularly directed lending by the People's Bank of China, with adverse consequences for monetary control and the transparency of public accounts.

Since 75 per cent of enterprises apparently bear either the same tax burden or even a lower one than before 1994, the lack of widespread opposition is hardly surprising. But the tax burden must rise if government is to obtain the additional revenue it needs.

One approach might be a higher personal income tax. This raised only Yn7.2bn in 1994 and Yn8.9bn in the first nine months of 1995, partly because fewer than 2 per cent of individuals are liable to it. Whichever way is chosen, the fiscal burden must start to rise, casting doubts on whether reforms will then remain so popular.

Martin Wolf

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■ **Economy:** by Martin Wolf

Time for radical action

The government needs to make further changes if it is to build on its achievements and secure long-term stability

Mr Zhu Rongji, the executive vice-premier in charge of the economy, and his subordinates – such as Mr Dai Xianglong, the governor of the People's Bank of China (PBC) – can look on their work and find it good. Under their management, China seems to have achieved a "soft landing", with high economic growth, reduced inflation and a strong balance of payments.

Retail price inflation was 21.7 per cent in 1994, up from 13.2 per cent in the previous year. In response to fears of consequent social unrest, a stabilisation programme was introduced in July 1993. Its effect on China's economic growth was apparent in 1994, when real gross domestic product grew "only" 11.8 per cent, down from 13.4 per cent in 1993 and 13.6 per cent in 1992. Growth this year is expected to be close to 10 per cent.

Lower inflation followed closely behind. In the first three quarters of 1995 retail prices were 16.6 per cent above the same period of 1994 and this year's target of 15 per cent now looks certain to be achieved. But this plays down the decline in underlying inflation, since the retail price index in September was only 2.2 per cent higher than in February. Furthermore, non-food inflation has been falling since July 1993, although food-inflation peaked at close to 45 per cent in late-1994, because of weaknesses in agriculture (see chart).

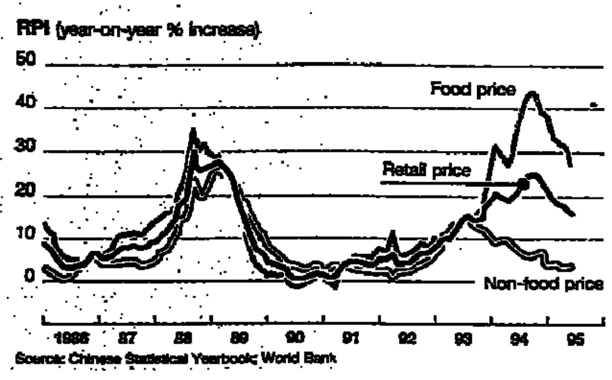
Since loans carry nominal interest rates of at least 11 per cent, real rates of interest are now burdensome. But the failure of many state-owned enterprises (SOEs) to service their debts means that limits on credit, buttressed by the growing prudence of commercial banks, has been the real constraint upon them. These measures have slowed the growth of investment: in the first nine months of 1995, nominal investment of SOEs in fixed assets was 18 per cent above that of the same period of 1994; last year, in contrast, the year-on-year rise was 44 per cent.

Monetary control has also improved: M0 grew 15 per cent in the year to September 1995, against a target of 18 per cent, while M1 growth is also within its target of 21 per cent. But broad money, M2, has grown 30 per cent, against a target of 25 per cent. This pattern of expansion has reduced money's liquidity. But the broad money supply has still risen too rapidly, partly because savings have few alternative outlets and partly because financial institutions managed to expand their assets, despite the credit controls.

Fortunately, China's trade performance has allowed output growth to slow by far less than domestic demand. In January to August of 1995, imports rose only 15.3 per cent over the same period of last year, to $79.3bn, while exports reached US $94.6bn, an increase of 37.2 per cent. If the trend were to continue, exports could exceed $160bn in 1995. This performance was boosted by the anticipated reduction in VAT rebates. But the main cause was curbs on domestic demand, combined with expansion in export supply.

Along with continued net imports of foreign capital, the trade surplus has raised foreign exchange reserves from less than $20bn in mid-1993 to $72.9 at the end of last month. Reserve accumulation has driven the expansion of the monetary base this year. To neutralise the effects, the PBC has withdrawn credits advanced to financial institutions, increased reserve requirements on banks and sold bonds.

Inflation: food and non-food



Source: Chinese Statistical Yearbook; World Bank

Despite such minor worries, the authorities must find the overall picture delightful. But they refuse to delight in it. On the contrary, they insist that the battle against inflation is not won. Mr Dai Xianglong stresses six risks:

● persistently rapid growth of broad money;
● pressures to start another round of inflation, fuelled by the uncontrolled expansion of investment in SOEs;
● lack of a credible bankruptcy constraint upon SOEs;
● weaknesses in the agricultural sector;
● rapid growth in real incomes and consumption; and
● the need to readjust prices of essential commodities.

The government's response is "properly to tighten credit", in Mr Zhu's words, wtih a view to lowering annual inflation to 5 per cent during the ninth five-year plan period (1996-2000). But in China's semi-reformed economy the price of such low inflation could be anaemic growth: the official target of 8 per cent a year seems modest for a country with an abundant supply of labour and a savings rate of 35-40 per cent of GDP.

If China is to combine low inflation with high growth, it must deepen the economic transformation. Priorities include SOE reform, elimination of the budget deficit, intended to be completed by 2000, commercialisation of the banks, prosecution of the tax reform, trade liberalisation and convertibility of the currency on current account. In addition, the government must respond to concern over the unequal distribution of the benefits of past growth.

There are close links among these elements of the agenda.

● SOEs will cease their excessive and inefficient investment only if bankruptcy is made credible. If this is to happen, the government must be able to provide a social safety net.
● Trade liberalisation and currency convertibility will exacerbate the pressure on failing enterprises.
● Open money market operations by the PBC imply movement towards market interest rates, which loss-making enterprises would be unable to pay.
● A market-led financial system demands healthy commercial banks. At present, these banks have impaired loans equal to 20 per cent of their assets. Their balance sheets must be cleaned up.
● To enjoy a more even pattern of development, China must develop an integrated capital market and improve infrastructure in poor areas. This demands further financial reform, as well as far more fiscal revenue.

Mr Deng Xiaoping's achievement was to let some Chinese show what they could do under market incentives. The task for those now in charge is to build on his success. The needed reforms are both more complex and more controversial than those undertaken hitherto, more complex because of the inter-relationships among them, more controversial because there will be many clear losers. But China has little alternative. Reform must tackle the most baleful legacies of the past if today's lower inflation is to turn into sustained, stable and equitable growth tomorrow.

Interview Zhu Rongji, executive vice premier in charge of the economy

'We had anticipated more risk'

Mr Zhu Rongji, China's executive vice premier in charge of the economy, spoke to the *Financial Times* in Beijing recently for its annual survey. What follows are his observations on key issues facing the economy.

Credit restrictions
"So far these measures have yielded great success and we are getting closer to the objectives of these macro economic control policies – the purpose of which is to control inflation. However, we're not able to say we have fulfilled all targets. The soft landing is not complete yet. Therefore, the macro economic control measures will continue."

Inflation
"For the ninth five-year plan period, that is, from 1996 to the year 2000, we plan to have an annual growth rate of 8 per cent. We must keep the inflation rate below our economic growth rate. For me, it would be the best if it [inflation] is below 5 per cent – still high by western standard, but not by Hong Kong standards. For a developing country like China it is very difficult to reduce the inflation rate to 5 per cent in a very short period of time. We think a 5 per cent inflation rate would be acceptable to the people...To achieve this, we must first of all control the budget deficit...and we hope to wipe it out by the year 2000."

State enterprise reform
"In 1994 we carried out extensive reform measures in accordance with the market economic principles. So far, all these are concentrated in the macro economic area, meaning reforms in fiscal, banking, taxation, foreign trade, foreign exchange and investment sectors. We have not had time to focus on the micro aspects of the economy, and one of the key issues of the micro reforms is the state enterprises. Next year, we will spend more time and energy on the reform of the state enterprises."

Commercialisation of the banks
"Since the beginning of 1993, we have introduced a lot of reform measures to China's state banks. We have separated the policy-lending banks from the commercial lending banks; we have established three policy-lending banks. But...if the state banks are to be genuine commercial banks, we have to wait till the completion of the reform in the state-owned enterprises – we would try to attain this goal at the end of this century."

Interest rate reform and open market operations
"It's true that before the completion of reform of state-owned enterprises the role played by the interest rate system in China will not be very significant. It will take time before the banks in China can make timely readjustment and control the national economy by utilising the tools available to them – including interest rate, exchange and open market operations. The most important thing is to complete the transformation of the operational mechanism of the state-owned enterprises.

Regional disparities
"The regional economic gap has always been a matter of concern to us, but this problem is caused by history. I am afraid in the short term the gap will not be narrowed – on the contrary, the gap might widen. At present, the focus in our work is to bring about rapid development in China's mid-west. However, we should not seek this objective at the expense of growth in the coastal areas."

Tax breaks for foreign investors
"Preferential policies should be basically unchanged. Why basically? Because the current policies and the current favourable tax policies given to the special economic zones are adopted in the transitional period that will lead China into a socialist market economy and make it integrated with common international practice.

But since we are trying to integrate the Chinese economy with the world economy so as to be in compliance with the principles of Gatt and the WTO it's impossible to avoid making the necessary readjustments in these policies."

Currency convertibility
"In the past, the market in China was only a market for the RMB. In the future, it will also be a market for foreign exchange. Originally, we planned to make our currency convertible in five years' time, but now we are able to fulfil the timetable far ahead of schedule. I think with the improvement of the investment climate in China in accordance with Gatt and WTO principles this will make China more attractive to foreign investors. The timetable of RMB free convertibility will be fulfilled earlier than you expect."

Mr Zhu: 'control measures will continue'

Entry to the world trade organisation
"I think every condition is ripe for China to re-enter Gatt and become a member of WTO. China will definitely assume its obligations. By any measure China is still a developing country...so it will assume obligations commensurate with a developing country. No matter how much desire and interest we have in becoming a member of WTO, China should not be expected to assume the obligations for a developed country."

Tariff reduction
"The current tariff level of China is very high...The average tariff level for developing countries is about 15 per cent, but now for China the level is 35 per cent... To be consistent with international practice, we will have to reduce tariffs to at least the average level of developing countries, 15 per cent, that is a must."

Pace of reform
"At the 14th national congress of the Chinese communist party, we decided to establish a socialist market economy. The pace of progress has generally been the same as we envisaged. Originally, we had anticipated more risk – but, as it turned out, we have seen less risk and more success."

Tony Walker and Peter Montagnon

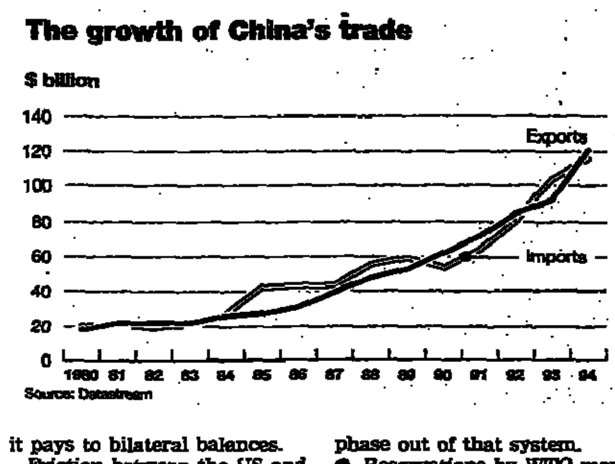
■ **Trade:** by Martin Wolf

Doubts mar talks

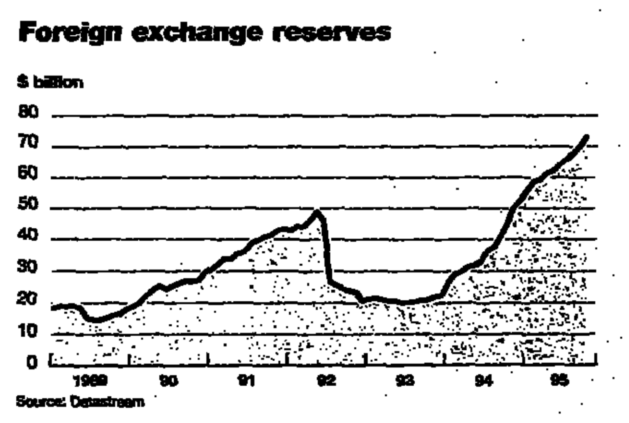
Negotiations with the WTO will hinge on the ability of both sides to make a leap of faith

China has become a significant force in world trade. Its exports and imports are already close to those of the Netherlands and Canada. It could even be the world's fourth largest trading nation – after the US, Germany and Japan – by the end of this decade. This dynamism is both exciting and disturbing to its trading partners. The fact that China's negotiations to join – or re-join – the Gatt (now the World Trade Organisation) have been stumbling along for nine years indicates just how disturbing.

China's merchandise exports were US$121.0bn and its merchandise imports $115.7bn in 1994. Its global rank was 10th in both categories, while its share in world trade was 2.8 per cent, up from 0.9 per cent in 1978. By comparison, it is relatively insignificant in commercial services, with exports of $12.5bn, imports of $13.1bn and a rank of only 22nd.



A further jump in China's share in world merchandise trade is occurring this year. Exports in the first eight months of 1995 were 37.2 per cent above their US dollar level for the same period of last year, while imports, by contrast, grew only 15.3 per cent. The resulting trade surplus, at $15.3bn so far, has become a source of friction with the US. This is still more true of the bilateral surplus.



The US and China do not even agree on how to measure the latter. The main difficulty arises from the role of Hong Kong as an entrepot. In the first eight months of this year, for example, 26 per cent of China's exports went to Hong Kong, compared with 18 per cent directly to Japan and 17 per cent to the US. Since China excludes Hong Kong's re-exports from its statistics, it admits to a direct bilateral surplus with the US of $7.4bn in 1994 and $8bn in the first eight months of 1995 (an annual rate of $12bn). But the US claims that its bilateral trade deficit this year might be $38bn, up from $30bn in 1994. Mr Shi Guangsheng, vice-minister in the ministry of foreign trade and economic co-operation, rejects both the US calculations and the undue attention it pays to bilateral balances.

Friction between the US and China bedevils more than the purely bilateral relationship. It is also a central element in the long debate over China's membership of the WTO.

As is usual, these accession negotiations are two-pronged: one is agreement on a protocol of accession; the other is a series of bilateral negotiations on market access in goods and services.

The following areas of significant disagreement remain over the protocol itself.

- Judicial review: China is asked to provide independent tribunals. It has agreed in some, but not all cases.
- Trading rights: China is asked for full liberalisation of the right to engage in foreign trade within three years. It has proposed staged liberalisation over eight years.
- Non-tariff measures: China is asked to phase out listed measures and, by some, to include industrial policies. It has submitted an alternative list.
- Price controls: China is to agree a list of goods and services that may be put under such controls. It has submitted an alternative list.
- Subsidies: China is asked to provide these transparently and to phase out listed subsidies. That list remains controversial.
- Balance of payments measures: China is asked to use only price-based measures and to notify the WTO at the time of their announcement. It refuses to go beyond WTO obligations.
- Standards and technical regulations: China is asked to list products subject to inspection, along with applicable standards. It is also asked for an immediate phase out of the two-tiered system for inspection of imports and domestic products. It seeks a period for phase out of that system.
- Reservations by WTO members: China wants members to list prohibitions and discriminatory restrictions against its exports and agree a timetable for phase out. It wants this to cover US conditional most-favoured nation treatment as well.
- Transitional review: China is asked to accept a two-year review of its implementation of the protocol and the WTO agreement. It has agreed, but wants a date for termination of this special review.
- Special safeguards: the US and the EU are seeking both a general and a product-specific safeguard. This China adamantly rejects.
- Sector-specific transition periods: China is asked to justify any requests for special transition periods. China has made no special requests, except for trade-related intellectual property.

Negotiations are also proceeding on market access. Mr Zhu Rongji, executive vice-premier in charge of the economy, admits that China's tariffs, which average 35 per cent, need to be reduced over a number of years towards the average of 15 per cent in developing countries.

Behind these negotiations lies a deeper concern: whether regulatory agreements with Beijing will be implemented throughout the country. The issue is perfectly exemplified by problems over intellectual property. Last February a copyright agreement was signed by the US and China, after Washington threatened penalties against Chinese exports. But leading music publishers complain that piracy is as bad as ever.

Most trading partners would agree that China is too big and potentially too important not to be inside the WTO. Its participation in the Asia Pacific Economic Cooperation forum, though valuable, can be no subsitute. The technical disagreements over WTO accession could also be reduced at the informal meeting of the WTO's working party on accession, in December. But if negotiations are to be concluded, both sides need to make a leap of faith. China must embrace a law-based system that will permeate its economy. Its partners must believe that China can and will live by the rules. The accession negotiations have not been completed, because the faith has been absent. They could remain incomplete for the same reason.

■ ***Foreign direct investment:*** by Peter Montagnon

Focus shifts to high-tech sectors

Despite the threat of a new tax regime, overseas interest is strong

Two apparently conflicting trends currently affect foreign direct investment in China. More cash has been flowing in as past pledges are realised, but the level of new commitments has fallen. Official figures show the amount of foreign investment paid in during the first nine months of this year rose by 11.9 per cent to $25.4bn compared with the same period of 1994. By contrast, new commitments fell 15.3 per cent to $48.3bn.

The higher paid-in investment rate reflects the surge in commitments in previous years, but the pattern also suggests China may be finally succeeding in improving the quality of its foreign investments as some of the speculative froth is blown off.

Part of the fall may reflect a slowdown in investment by Taiwan as relations between Taipei and Beijing deteriorated this year, but Western analysts say there has also been a fall in contracts for speculative real estate ventures. China clamped down last winter on amenities such as golf courses and the luxury apartment and villa developments that have taken root on the outskirts of many cities.

According to Mr Shi Guangsheng, vice minister for foreign trade, total paid-in investments now exceed $120bn. More than 240,000 enterprises have been approved, of which half are operational. Mr Shi detects a trend towards larger projects, with more emphasis on infrastructure and a gradual shift away from the coastal regions to inland provinces where wages are lower. Such a development would be in line with official policy.

In July, China issued new guidelines for foreign investment that set out to move the focus away from the labour intensive manufacture of consumer goods. Instead China is looking for investments with a higher technological content in areas such as micro-electronics, aviation and biotechnology. It is also stepping up efforts to attract infrastructure investments and direct more investment towards the relatively poorer inland provinces.

So far, China has not revealed the precise nature of any incentives it intends to offer to steer investment in the desired direction, but it looks as though some of them may be negative ones, involving the scrapping or reduction of existing privileges in an attempt to level the playing field.

Many foreign businessmen expect Beijing to abolish the tariff exemption on foreign company imports of capital goods and to reduce further the value-added-tax rebate on exports. While exporters could previously claim a rebate at the full 17 per cent rate, this was reduced to 14 per cent in July. It is expected to fall further to 9 per cent in due course.

There is also a lively internal debate on the role of the five special economic zones in Shenzhen, Zhuhai, Shantou, Xiamen and Hainan Island. Economists such as the influential Mr Hu Angang of the Chinese Academy of Sciences argue that they have played their role in helping get a market economy under way and that an end to their preferential status would help even out regional income disparities. "Deng Xiaoping's policy of allowing some regions to move ahead was a breakthrough after central planning, but China has changed greatly after 16 years," he says.

Mr Zhu Rongji, executive vice-premier in charge of the economy says any change in policy towards the special exconomic zones would be gradual and connected to the broader reform of china's tariffs.

Still, the prospect of such changes might alter the economics of foreign investments and some fear they might deter new entrants. A shortage of trained personnel and transport problems remain an impediment to the opening up of the hinterland – it takes 15 days for the Chengdu Aircraft Industry Corporation to move the nose sections it manufactures for McDonnell Douglas from its Sichuan plant to the port of Shanghai.

Executives from some Japanese companies have said that China appears ambitious in its expectations for upgraded technology. The new guidelines may make them more cautious about investment in China. "The terms for joint ventures, like investment ratios, export ratios and production items are becoming less favourable to us," Mr Yukio Shotoku, Matsushita's director for China told reporters earlier this year.

But evidence of lively overseas interest in China comes from the automotive sector where Ford and General Motors fought a bitter battle for the right to build a $1bn car assembly plant in a joint venture with Shanghai Automotive Industry Corporation. Similarly tough competition was sparked by an opportunity to build mini-vans in a joint venture with South China Motor Corporation. That DM1.4bn deal was won by Daimler-Benz in the summer.

And China itself needs foreign help to develop its infrastructrure. With restrictions on foreign borrowing and less central government money available for infrastructure, the richer coastal areas, in particular, may find themselves more dependent on foreign equity involvement in sectors like roads and power.

Already Citic, the government-owned conglomerate, has taken a stake through its publicly listed Hong kong subsidiary in two bridges and a tunnel under the Huangpu River in Shanghai.

Power sector developments have been beset by arguments over rates of return, but analysts say the authorities now seem more willing to fudge these issues. In this and other sectors, negotiations may be tough, but there will be no shortage of oppportunities.

■ **Marketing and advertising:** by Richard Tomlinson

Land of opportunity

For the big agencies, the market's potential outweighs its complexity

Last month, television viewers in the Chinese city of Tianjin were introduced to Largo, a new beer produced by Foster's for the local market. As images of peasants with TV satellite dishes flashed across the screen, the message of the commercial was clear: only Largo drinkers could keep up with the times.

What viewers did not see was the original commercial produced by J. Walter Thompson's Beijing agency for Foster's, which the local Tianjin television station had insisted on cutting. "They didn't like soldiers singing karaoke, street traders selling Mao's little red book, or taxi drivers fighting," says Ms Lam Kwei Chee of J. Walter Thompson, who scripted the advertisement. "They even objected to a woman with her hair dyed blonde."

Ms Lam's experience illustrates one of the difficulties facing multinational agencies. Until this year, the only national guidelines for advertisers were a set of State Council edicts issued in the mid-1980s, when foreign agencies were first allowed to set up joint ventures in China.

Last February, the introduction of a new comprehensive advertising law was supposed to bring order to the chaos. Yet so far, it has only spread more confusion.

"The spirit of the law is good," says Mr Kenny Wu, Ogilvy and Mather's general manager for China. "The problem is that China is just too big a country to enforce it consistently. Often, interpretations vary from one region to the next."

In theory, responsibility for implementing the law lies with the State Administration of Industry and Commerce (SAIC). In practice, the SAIC lacks the manpower to censor advertisements, and has delegated the task to agencies and media outlets.

"There's certainly a need for clearer direction from the SAIC," says Mr Ron Cronle, head of China business for J. Walter Thompson. "In the end, though, I think the industry will muddle through."

For multinational agencies such as J. Walter Thompson and Ogilvy and Mather, the incentive for muddling through is clear. Between now and the year 2000, the SAIC predicts that annual spending on advertising will quadruple to Yn20bn ($2.5bn).

For multinational agency groups, however, seeing a return on investment is problematic. Mr Cronle describes J. Walter Thompson's China business as "only very marginally profitable."

"By far the biggest problem facing international agencies in China is buying spots," he adds. "You have a high number of media vendors selling a limited number of spots."

All TV spots must be paid for in full in advance, but this doesn't guarantee they will actually run.

"It's one thing to book a spot, quite another for the commercial to be broadcast," says Mr Wu of Ogilvy and Mather, whose clients include Pepsi Cola, Unilever and IBM. Privately, industry sources admit that backhanders are sometimes offered to Chinese TV executives, to ensure that commercials reach the screen.

In the past, foreign advertisers were further handicapped by the three-tier system of payment for television spots, with joint ventures and overseas agencies charged far more than local advertising shops. The ministry of radio, film and television is committed to ending this system, but the estimated 43,000 local agencies still enjoy competitive advantages over the multinationals.

"The overhead costs for local agencies are far less than ours," says Mr Michael Lew, China business director for Dentsu, Young and Rubicam (DYR), whose joint venture partner is the China International Advertising Corporation.

A particular irritant for DYR has been the loss of local staff. "For a while in China, we thought we were doing a decent job training local people," says Mr Lew. "But increasingly we have seen them job-hop, or go off to set up their own businesses."

To maintain continuity, DYR now employs more expatriates who, unlike local staff, must be paid internationally weighted salaries. Yet Mr Lew is not alone in seeing "a chink of light" for multinational agencies in China. While big profits remain elusive, the total value of billings has soared, reflecting the rapid growth of the market.

This year, J. Walter Thompson predicts its total China billings will reach about $55m, more than double the figure for 1994. Ogilvy and Mather, in line with other big agencies, is forecasting 40 per cent growth for 1995.

Easy rider? Traditionally, ads by local agencies enjoy cheaper media rates

■ **State enterprise reform:** by Martin Wolf

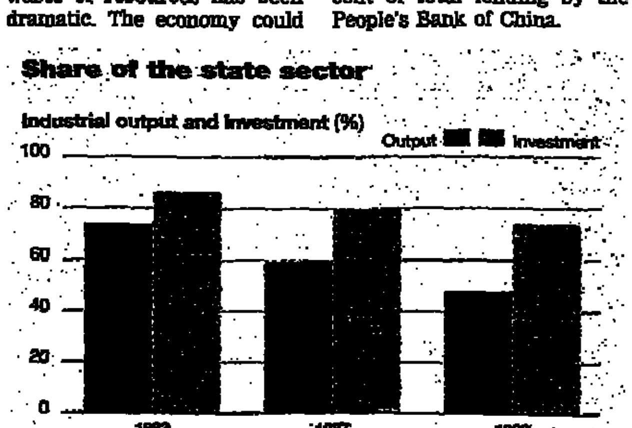
The iron rice bowl

Ideological sensitivity means reforming the SOEs is difficult – but not impossible

China should have grown faster than it has. Given that, according to the statistics, the economy has expanded at an annual average rate of 9 per cent since reforms began in 1978, this statement must appear absurd. It is not. China has been held back by the waste of resources in state-owned enterprises (SOEs).

From 1982 to 1992, the share of the state sector in industrial investment fell modestly, from 86.5 to 74.3 per cent, but its share in output fell sharply, from 74.4 to 48.1 per cent (and then 43.1 per cent in 1993). Despite their disproportionate access to investment funds, the increase in the real industrial output of SOEs, between 1989 and 1993, was only a fifth of the total, while the annual growth of their output was just 7.4 per cent, against 31 per cent in non-SOEs.

Not surprisingly, the efficiency of investment in SOEs has been less than a third of that in non-state owned enterprises. Since the former received 61 per cent fixed investment, even in 1993, the waste of resources has been dramatic. The economy could grow so rapidly only because fixed investment was a third of gross domestic product.



Economic waste is only one of the handicaps SOEs impose. Free from responsibility for their mistakes, they have a hunger for investment that exacerbates the inflationary stop-go cycle. They also exploit their access to working capital finance and limited fear of bankruptcy, to "stir-fry" financial markets, by speculating irresponsibly, according to the finance minister, Mr Liu Zhongli. This lay behind the government's decision to close the Shanghai bond futures market last May, explains the vice-chairman of the China Securities Regulatory Commission, Mr Li Jian Ge.

Close to a half of all SOEs are reported to be running at a loss, partly because many are uncompetitive, partly because they have little incentive to earn profits and partly because they have, on average, ratios of indebtedness to net worth of more than four to one.

SOEs also accumulate unpaid debts with one another, recently estimated at Yn250-300bn (US $30-35bn), in the hope that the banks will be forced to bail them out. Such behaviour has helped make them the chief source of the problem loans of the banking system, estimated at 20 per cent of total lending by the People's Bank of China.

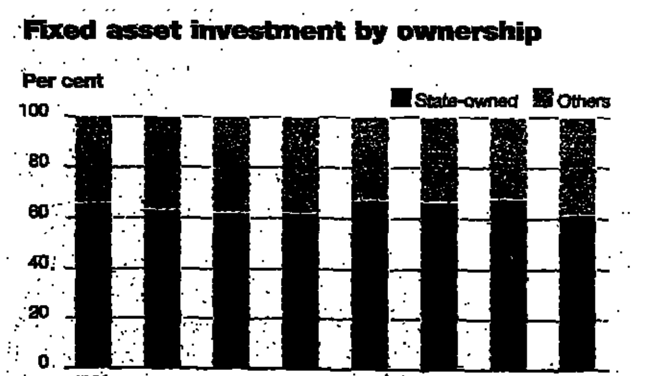
The government's response has been to reform in a gingerly manner. Its most important recent decision has been to concentrate attention on some 1,000 SOEs, out of 14,000 large and medium-sized enterprises, leaving the rest to fend for themselves.

The combination of neglect with a disinflationary credit policy, the growing commercialisation of banks and external competition, is forcing many SOEs to change. Some have turned themselves into share-holding companies. Many have foreign joint-venture partners or are seeking them. Some are merging or selling out. Many are spinning off small companies, or are leasing out their assets. Some have chosen to pay minimal wages to workers who are, effectively, unemployed.

Even bankruptcy has become thinkable. An expert on this subject, Mr Cao Siyuan, notes that the number of cases has risen rapidly, from 117 in 1991, to 1,625 last year. More bankruptcy is needed, he argues, to change behaviour, particularly of workers accustomed to the "iron rice bowl", with its guaranteed exchange of low-wage employment for low-productivity work.

The obstacles to rapid change, even within modestly sized enterprises, are illustrated by the plight of the Number 1 Cotton Mill in Wuhan, in central China. This enterprise has 8,000 workers, plus 2,500 pensioners, instead of the 4,000 workers its director believes it needs; it provides its workers and pensioners with medical services and subsidised housing; and its main site would be far better used for offices and shops. Yet the mill has much first-rate foreign machinery and a proven export performance. If production could be relocated, the workforce reduced and the social burden alleviated, it could have a bright future.

Such transformations are not easily executed, however. SOEs employ 107m workers, nearly a fifth of the officially measured labour force. Policy-makers fear the social and political consequences of a sharp reduction in these numbers. At the very least, they must first find alternative ways to finance the social obligations, not least to pensioners.



The revenue shortage of the Chinese government makes this a stiff challenge. One approach might be to transfer assets of SOEs directly into new pension funds, but this, let alone more radical privatisation, remains ideological anathema to many.

Yet the shortage of revenue that makes it difficult for the state to assume the welfare burden also makes it hard to provide the funds SOEs need to grow. Even if the economic inefficiency were tolerable, the government could hardly provide the capital, offer the subsidies or bear the bad debts. Further reform is inescapable, not least because of the central economic role many SOEs still play. It will come hesitantly. But come it must.

■ **Banking:** by Peter Montagnon

Bad debts curb modernisation drive

Cultural changes are needed to make the sector truly commercial

With the passage of China's new banking law this summer the process of turning its big banks into proper commercial institutions is under way with a vengeance.

The law underpins reforms that have already seen the banks relieved of their role of so-called policy lending, whereby their credit programmes were little more than an extension of the government budget. Under the new structure such policy lending is is in the hands of three new institutions: the Agriculture Development Bank; Import and Export Credit Bank; and the State Development Bank.

That has given a new freedom to the four main commercial banks – People's Construction Bank, Agricultural Bank, Industrial and Commercial Bank and Bank of China – which control the bulk of the country's banking assets.

In theory the banks are supposed to make independent lending decisions based on proper credit assessment but the change of culture will have to be radical before China can boast a lively, competitive and efficient banking sector. Most expect the process to be long and arduous and some fear the programme of reform could come to a grinding halt under the weight of bad debts in China's financial system.

"We must make our bank like a real bank, not a department of government," says Mr Wang Xuebing, president of the Bank of China. "That means not only the transformation of the structure, but also of the management."

An essential part of the process is the need for head office to get a grip on the activities of branches that were virtual local fiefdoms under the old system and heavily subject to local political influence. The central bank has helped by making liquidity available to the system through head office, forcing senior management to try to centralise the functions of resource allocation and risk management.

The banks are also setting up new systems to analyse credit and monitor approvals. "We think that will increase quality and reduce risk," says Bank of China's Mr Wang.

To help in the process they are engaged in an intensive programme of computerisation. Bank of China is currently spending \$200m a year on information technology. The People's Construction Bank says it has so far spent Yn1.8bn.

In practice, however, commercialisation remains a struggle. Mr Wang Qishan, president of the People's Construction Bank, says it has been difficult to persuade local branches to part with surplus liquidity even though head office credits them with interest on any funds they release.

Most analysts agree that the reform of banking systems will not work without parallel reform of state enterprises. Only then will banks be able to make judgments based on commercial risk and take an objective view of the quality of their loan portfolios.

Mr Cao Siyuan, a consultant on bankruptcy, argues that a few bankruptcies are needed to concentrate minds in both banking and industry. At present bankers are reluctant to admit to problem loans, he says.

"The authorities may regard them as delinquent or corrupt, so they would rather cover it up. That's the biggest obstacle impeding financial reform."

By far the largest problem for bank managements is the stock of bad loans that the banks were previously forced to extend to ailing state enterprises. Some fear a serious financial crisis as the extent of bad loans becomes clear and banks are forced to take losses in excess of their capital.

This worry has been reflected in two verdicts by Moody's, the US credit ratings agency. It first cut the credit ratings of China's main banks and subsequently gave them very low financial health ratings, separate ratings based purely on balance sheet data without taking into account the prospect of state support.

But the authorities are at pains to dispel such worries. Mr Dai Xianlong, Governor of the People's Bank of China, said he was shocked by the ratings, arguing that Moody's had misunderstood the situation. The central bank would stand behind the commercial banks since they were state owned. It had the resources to do so, he said.

Besides, he added, market estimates of problem loans were exaggerated. Less than 2 per cent of advances by the four main commercial banks were irrecoverable and had to be written off. A further 7 per cent were overdue for more than three years but borrowers were still paying interest, while 11 per cent were overdue for more than a year but less than three years. Some state enterprises also had assets that were worth far more than the costs that appeared in their accounts.

The authorities were helping the banks build up reserves to deal with problem loans and they were expected to make provisions out of their own profits so that within three to five years the situation should have improved.

It remains to be seen how many overdue loans will be repaid but the authorities clearly believe they can spread the problem out in such a way as to avoid shock to the system. Outside analysts agree that this should be possible. But it is touch and go, says Mr Rajiv Lall, a former World Bank economist who is now head of regional economic research at Morgan Stanley in Hong Kong.

Chinese commercial banks are not short of capital: they receive 30 per cent of their liabilities from the central bank, a cushion that is effectively equity. They can thus afford to make large write-offs, he says, as long as the pace is slower than that at which the central bank gradually withdraws its funding as part of the commercialisation process.

The next two or three years will be crucial, he adds. The authorities have to encourage some, but not too many, state-owned enterprises to go into liquidation.

Leading banks' return on capital (%)

	1991	1992	1993	1994
Industrial and Commerical Bank	33.5	33.18	10.3	6.62
Agricultural Bank	5.21	5.83	9.34	2.61
Bank of China	18.47	19.30	16.51	14.83
People's Construction Bank	5.73	4.40	6.54	7.12

Source: W.I. Carr

■ **Citic:** by Tony Walker

Man with a bold mission

The new chairman of one of the country's leading organisations faces a tough challenge

Mr Wang Jun, the newly appointed chairman of the China International Trust and Investment Corporation (Citic), is clearly a man with a mission: to streamline an organisation that had grown too quickly and haphazardly.

Appointed to head Citic earlier this year after the company's Shanghai branch had lost some \$40m in futures trading on the London Metals Exchange, Mr Wang makes no secret of the brief handed to him by the State Council, or cabinet, which was responsible for his appointment.

"The current task is very important to Citic and that is to establish an effective supervisory system," he says. "After the losses in Shanghai we've made tremendous efforts to strengthen internal controls."

The new management was focusing its efforts in two significant areas. These involved imposing stricter discipline on the company's 30 subsidiaries at home and abroad, and at same time beginning to divest Citic of some of the enterprises that in Mr Wang's words were "not well run and were not large enough".

Mr Wang also indicated that Citic, which was formed in 1979 as a conduit for foreign investment in China, would move more strongly into financial services, including banking, securities trading and fund management. He expects this to form the basic thrust of Citic's mainland activities in the next period.

The 54-year-old Mr Wang and his team would seem, judging by Citic's high debt levels and the problem enterprises on its books, to face a fairly severe test. Moreover, Citic's reputation as one of China's premier organisations has been tarnished, and some good housekeeping would appear to be in order to restore it.

Mr Wang himself cannot escape some responsibility for the organisation's problems. He has been involved since

Continued on next page

Regulators try to tame primitive beast

Those overseeing securities face a difficult task: how to allow the markets to develop while curbing speculative excess

Securities regulators have always faced a balancing act between their duty to ensure safety and a natural desire to promote their market. In China the task is exceptionally hard.

While the country's fast-growing economy has sparked an almost insatiable demand for capital, China's capital markets remain primitive. There is still no over-arching securities law. Lacking institutional investors, the markets are prey to retail speculative excess.

This problem was driven home in February with a scandal that eventually forced the authorities to close the bond futures market. Two Shanghai brokers were forced into huge selling of bond futures to cover positions in excess of permitted limits. In eight minutes of trading paper with an underlying value of \$37bn changed hands.

The authorities intervened and cancelled the trades. An official report in September said lax regulation was partly to blame, and the expansionist-minded president of the Shanghai stock exchange was replaced in a move interpreted by the financial community as a sign that Beijing wanted tighter control.

Such a view permeates the remarks of Mr Li Jiange, vice-chairman of the China Securities Regulatory Commission (CSRC) as he assesses current regulatory issues. Mr Li is one of the sharp-minded younger officials now being promoted to senior positions in Beijing to help keep central control of economic reform.

China needs futures, he says, to help markets set prices and help business to avoid risk, but futures should develop gradually. The underlying markets are not ready. There are still state controls on prices, so trading is dominated by speculation. Many of those that engage in it are state-owned enterprises, which keep any profits arising but charge the government for their losses.

Bond futures present special problems because there are still too few issues in the cash market and they are indexed to inflation, which is erratic and unpredictable. After February's crisis the CSRC wanted to keep the futures market open and tried to curb activity by increasing margin requirements, but flows of "hot money" eventually forced its closure. Reopening will have to wait until the cash market is larger.

Mr Li adds that a 13th draft of the law will soon be presented to the National People's Congress. Delay in passing the law had been caused by disagreement over the division of responsibilities between different authorities involved in the markets. The CSRC believes there should be one central regulator. "In fact some of the early problems had been partly to do with the division of powers," says Mr Li.

According to Mr Li, China does not need a plethora of markets. Shenzhen is already losing ground compared with Shanghai, but the country does need two centres to provide competition and both are now well developed in terms of computerisation.

Mr Li says the authorities will not open the domestic bond market to foreigners before the yuan becomes convertible, probably by the end of this decade, but a separate market for foreigners to trade yuan bonds might be set up in Hong Kong after 1997.

Control will also be maintained over the flow of new equity issues, though the Yn5.5bn limit for the current issues might be rolled forward. The CSRC was concerned at the market purchase by two Japanese companies of a majority stake in Beijing Light Bus Company, and at the purchase by Ford of a 20 per cent stake in the Jiangling truck manufacturer.

In principle the CSRC does not object to the practice, but there is a need to co-ordinate such moves with others who have a say in evaluating and transferring assets. Otherwise there could be chaos.

Peter Montagnon

One of the brokers blamed for the futures crisis — Sarah Murray

■ **Sichuan:** by Peter Montagnon

A tricky balancing act

While the region provides a good living for some, surplus labour is a growing problem

As things go for Chinese farmers, Mr Zhou Shubing has it good. From his smallholding in Juyuan township west of Chengdu in Sichuan province, he and his three sons manage to make enough money to support 11 people.

A washing machine which graces the living room is evidence of their relative affluence. Under the gaze of stylised portraits of Mao Zedong and Zhou Enlai, the machine takes pride of place alongside a colour television set.

No doubt their success is partly due to the efforts of Mrs Zhou, a powerful woman in her early fifties and a former local communist party secretary. She has organised the family along strict lines of responsibility.

Of her three sons, the eldest Zhou Degang, 31, runs the shrubbery business. Of his two younger brothers, one takes charge of the chicken rearing and the other of a small distillery.

Thus the family earns Yn90,000 a year from a farm that is little more than a hectare in size. But apart from what they need in order to feed themselves and to supply the distillery, the Zhous grow no additional grain.

They may be successful farmers, but the Zhous are also part of China's agricultural problem. With a population of 1.2bn to feed, the country badly needs to maintain its grain production. Yet with grain cultivation unrewarding financially, rural incomes are hard to maintain without diversification.

The Zhous started up their shrubbery business 10 years ago, growing bonsai trees and other ornamental plants.

For the past three years the business has been run by Zhou junior. It would be hard for anyone to persuade him to change jobs. The shrubbery business is a lucrative one. It generates more than five times the return than can be generated by grain. And it provides Zhou junior with an income that is sufficiently large to deter him from seeking his fortune in one of China's big cities.

The Zhou family: their diversification into shrubbery is profitable but at odds with government wishes

While life is undoubtedly easier in the fertile plains of the Sichuan basin than in the province's poorer upland regions, Juyuan is nevertheless showing some signs of under-employment. Hundreds of people work in the neatly tended fields of vegetables, where the hoeing and watering is done by hand. But even with almost no machines in operation, there is still insufficient work for everybody.

> Even with very few machines, there is still too little work around

In Gaolin village, a couple of miles up the road from the Zhous, Mr Liu Xinquan, Juyuan Deputy Party Secretary, shows off a small 2,800kw hydro-electric power station. Built in 1988, the station provides the power to run the factories that employ Juyuan's surplus labour.

Squeezed on to a tiny plot of land between the river and the power station reservoir, the factories are a ramshackle collection of operations, bereft of capital investment, and where most of the workers seem to have little to do.

One factory is a small smelter for scrap steel, another is a foundry that recycles lead from printing plants. At another a dozen women pick threads from plastic sacking for recycling. Altogether 230 people work in them, earning between 200 and 300 yuan a month.

For the village, the factories mean more revenues. For Mr Liu they are a means of dealing with the problem of surplus labour. Of Juyuan's total population of 30,400, he says about 8,000 count as surplus labour, which means they have no work on the land except at planting and harvest times.

The provincial authorities are faced by the same problem, but on a much larger scale. Sichuan province has a population of 110m, greater than that of any other Chinese province, but about 90m of its residents live in rural areas where surplus labour is concentrated. According to Mr Li Changming of the Sichuan Provincial Planning Commission, the province's biggest challenge is in developing the rural economy.

Sichuan already produces 10 per cent of China's grain and is its largest pig producer, says Mr Li, and the government aims to boost output further by giving farmers better know-how and increased access to irrigation – the province has several water projects under way.

Nevertheless, alternative employment must be provided. As part of the next five-year plan, Sichuan plans to build and renovate 300 small towns. The provincial authorities want to encourage small and medium-sized enterprises but are concerned not to waste good arable land.

Some surplus labour will inevitably drift away to the richer coastal regions, says Mr Li. Getting the balance right for the remainder, however, is an awesome task.

■ **Wuhan:** by Martin Wolf

Infrastructure aids 'Chicago'

New investment and new people make the city one of the country's most dynamic

Wuhan, a city of 7m and capital of the province of Hubei, is known as China's Chicago. Its weather, hot in summer and cold in winter, is one explanation, but the more important one is its location. A large inland port on the Yangtse, Wuhan is the hub of China's rail and road communications.

At a radius of roughly 1,100km lie Beijing to the north, Shanghai to the east and Guangzhou to the south. A circle centred on Wuhan, with a radius of 500km, would contain close to 400m people.

In the 1980s, Wuhan fell behind the economies of China's south and east coast. While it is China's fifth largest city by population, its expected gross product this year, of Yn60bn (US$7.2bn), means it is ranked seventh or eighth, while annual average labour earnings of Yn4,500 place it 12th among China's 17 largest cities.

But dynamism has come to Wuhan. This is clear not only from the statistics: real output grew 15.8 per cent in 1992, 16.8 per cent in 1993, 19.8 per cent in 1994, and in 1995 is expected to increase 15.2 per cent. It is also evident to the eye: a new airport and bridge across the Yangtse, new development zones, and construction everywhere.

Policy, proximity, skilled people and relative poverty help explain the migration of economic activity to Wuhan: policy, because in 1992, the central government made a decision to grant Wuhan the same incentives as those available to the coast's open cities; proximity, because Wuhan is a logical place for investors to move from more developed coastal areas; poverty, because land, office-space, housing, utilities and wages are substantially cheaper than in Shanghai, let alone the special economic zone of Shenzhen; and people, because Wuhan has a long-established industrial tradition and the highest ratio of students a head of any city in China.

Wuhan's challenge is to develop new, competitive businesses that will compensate for the inevitable shrinkage of many of its state-owned enterprises (SOEs), 1,108 of which constitute the lumbering bulk of its industrial economy. While SOEs generate much employment and 70-80 per cent of the municipality's revenue, officials estimate that only 25-30 per cent meet the test of market competition, 50 per cent are on the brink, while the rest are failing, to a greater or lesser degree.

The vice secretary-general of the municipal government, Mr Li Pan, insists that euthanasia is necessary for failing enterprises. Wuhan's solution is to attract new business, and above all foreign capital. Particular attention is being paid to two "pillar industries", automobiles and automobile parts, which are to be established in its new economic development zone, and high-technology manufacturing, to be located in another specially designated zone.

Central government has given these zones the same incentives as those of the special zones on the coast; successfully so, it appears, since a number of large investments have already been made, notably a project involving Citroen of France and China's Second Automobile Manufacturing Plant, which will ultimately manufacture 300,000 cars. This, in turn, has attracted parts manufacturers, one of them a joint venture between Pilkington of the UK and Yaohua Glass of China.

> Mr Li Pan recommends euthanasia for failing enterprises

Wuhan's success in attracting inward investment has been considerable, even by China's standards: 3,418 joint ventures were contracted by the end of September 1995, for a total value of US $9.6bn, $5.6bn of which is from the foreign partners, while actual investment was $2.6bn. Only 176 of these ventures had been contracted at the end of 1991. Since then, however, investors have been arriving at the rate of 1,000 a year.

To sustain such dynamism, Wuhan must improve its infrastructure, but funds from the central government and state-owned banks are proving hard to obtain. Mr Li Pan sees this as a blessing in disguise, however. "Macroeconomic control is good for healthy and orderly development of local economies," he says. The city is now much more prudent with its money, he insists, and carefully appraises all projects.

Wuhan has managed to turn its need into an opportunity for foreign capital. Its brand new airport was funded from a mixture of sources: the New World Development Company of Hong Kong, Japanese loans, domestic bank loans and municipal funds. The second bridge across the Yangtse was funded in a similar way. Wuhan's citizens now have to pay for services that they once expected to be free, but – as Mr Li Pan notes – the government simply has to persuade people that it is better to have expensive infrastructure than none.

By such entrepreneurial means, Wuhan managed to sustain a 40 per cent real rate of growth of investment last year and expects to repeat the same rate this year and next. Such startling figures suggest that rapid growth is no longer restricted to China's coastal fringe. It has spread well inland.

KEY FACTS

Area		9,561,000 sq km
Population		1.2bn
Head of state		Jiang Zemin
Average exchange rate		1994 $1=Rmb 8.642
		1995[2] $1=Rmb 8.355

ECONOMY	1994	1995[2]
Annual % change in		
Gross National Product (%)	11.8	9.8
Agriculture (%)	3.0[3]	2.5
Manufacturing (%)	18.0[3]	13.0
Services (%)	23.0[3]	11.8
Consumer prices (%)	24.1	18.5
Money supply (M2)	34.0	30.0
Total reserves exc. gold ($bn)[4]	51.6	NA
Total debt ($bn)[5]	93.1	NA
PSBR (% of GDP)	-1.6	-5.3
Shanghai comp (% change)[6]	-22.3	6.30[1]
Current account balance ($bn)	7.7	8.0
Merchandise Exports ($bn)	102.6[3]	134.9
Merchandise Imports ($bn)	-95.3[3]	-126.7
Trade balance ($bn)	7.3[3]	8.2

Main trading partners[7] (%, 1994)	Exports	Imports
Hong Kong	26.7	8.2
Japan	17.8	22.7
USA	17.6	12.1
EU	12.0	14.6
ASEAN	5.3	6.5
Germany	3.9	6.2
South Korea	3.6	6.3
Singapore	2.1	2.1

(1) Year to date (2) Forecasts unless otherwise indicated
(3) Official estimates (4) End period
(5) Including undisbursed (6) Stock market index
(7) Share of world trade
Source: EIU, Datastream

■ **Shandong:** by Tony Walker

Port province flourishes

Why, compared with his hinterland peers, Governor Li Chunting is a happy man

Governor Li Chunting of the coastal Shandong province could be said to be suffering from an embarrassment of riches compared with his counterparts in China's impoverished interior.

With its mineral resources, successful agricultural sector, port cities, steady flow of foreign investment and location – it lies between China's north-east industrial heartland and the Yangtze delta – Shandong enjoys significant natural advantages.

Mr Li also cites Shandong's proximity to Korea and Japan across the Yellow Sea as another boon. Korean and Japanese investment is growing strongly, and is beginning to help drive the provincial economy.

"With our good geographical location facing eastward to Korea and Japan we are taking positive steps to open Shandong's economy further," he says.

The province's conspicuous good fortune underscores in a sense the gap between the coastal areas and the hinterland. Given Shandong's manifest advantages, the task of narrowing the gulf will not prove easy, in spite of much pious talk in Beijing about the need to begin redressing the balance.

But *Shandong itself* has undergone something of an economic transformation since 1949. Ravaged by the civil war, and burdened before that by the Japanese occupation, the province could barely feed its population – now standing at 86m. In 1950, total output stood at just Yn4.1bn ($50.6m).

By 1994, GDP had reached Yn387bn, 4.3 times the 1980 figure, and economic growth has averaged 10 per cent over the past 15 years, well above the national average of 7 per cent to 8 per cent. Annual per capita income is around Yn1,500, double that of poorer regions.

Shandong rates number one in China in agricultural production. Its grain output measures about 10 per cent of the national total. In 1994, it produced 41m tonnes, more than enough for requirements, even allowing for the increased demand for stock feed.

It is also China's leading gold producer. About 60 per cent of the country's gold output is mined in Shandong, which boasts reserves of about 450 tonnes.

Shandong has also been among the more successful provinces in attracting foreign investment, thanks to a state council, or cabinet, decision in 1984 to declare the port cities of Yantai and Qingdao special development zones, thus entitling them to offer tax and other investment incentives.

Some $13bn in investment has been pledged, of which about $6bn has actually been invested. But these figures tell only part of the story. While Hong Kong and Taiwan investors led the way early with investments in such areas as real estate and processing industries, it is now the Koreans and Japanese who are making the running, and this corresponds with Mr Li's wishes.

Shandong is looking for larger-scale investment in telecommunications, the automotive sector, and electronics. Companies such as Daewoo and Samsung of Korea, Mitsubishi of Japan, Motorola of the US and Volvo of Sweden are beginning to make their presence felt.

These are the "big name" companies with tens of millions of dollars to invest that are not likely to find investments in inland provinces – where infrastructure is primitive – particularly attractive at this stage.

> Shandong rates number one in China in terms of agricultural production and is the leading gold producer

Shandong, in its efforts to attract foreign funds, has been investing heavily in infrastructure. Its port facilities, including six ports open for international traffic with annual handling capacity of 100m tonnes, make it China's leading "port province". The road system is also being upgraded with the construction of a network of toll-highways, and improvements are being made to the railways.

Mr Li, with perhaps scant regard for national planning targets, says Shandong's aim is to achieve average economic growth for the rest of the century of 12 per cent, tapering down to 10 per cent between 2000-2010. This compares with 8-9 per cent projected national growth in the latest five year plan (1996-2000).

But if Mr Li spares a thought for the less fortunate provinces, it is not something that he dwells on. Asked what his priorities are, he nominates Shandong's desire to keep up with other booming coastal provinces such as Jiangsu and Guandong. As he says, without reference to the problems of the hinterland: "We all want to develop faster".

Citic's mission

Continued from page 5

Citic was formed in 1979, first as business manager. He was appointed vice president in 1986, before becoming president in 1993.

The son of the late Wang Zhen, one of China's revolutionary leaders, Mr Wang enjoys valuable connections in the Chinese ruling élite, but these will not necessarily save his reputation if Citic fails to live up to its early promise. He appears to understand the burden of his responsibilities. "To construct a more rational financial structure in the next two years is my primary job," he says.

Among his most pressing tasks is the need to improve Citic's balance sheet. Debt stands at about Yn30bn ($3.7bn), including $2bn in foreign obligations. Profit in 1994 slid to Yn1.6bn, half that of the year before. By any standards, return on capital is derisory.

Citic's annual report does not provide an explanation for the profit slide, and Mr Wang responded vaguely to queries about the poor result, but losses in mainland real estate – a credit squeeze imposed in 1993 has taken its toll – would certainly have been a factor. The $40m in losses in futures trading on the LME will be a drag on this year's profits.

Mr Wang would also no doubt like to see the back of large loss-making state enterprises under Citic's wing, notably a former military factory in Shaanxi province, whose conversion to civilian production is causing more than its share of headaches. It seems unlikely, however, that Citic will be able to shed the burden: its charter requires it to help in modernising state enterprises.

It is this curious role as a quasi-commercial enterprise under state control that makes Mr Wang's task more complicated. He alluded to this when he said that on occasions in the past Citic had been obliged to "do things we did not want to do". But he also observed that in the past two years circumstances had improved.

Among Citic's bright spots, at least for the time being, is its Hong Kong subsidiary, Citic Hong Kong, and the listed Citic Pacific, which returned profits in 1994 of $330m, and showed a further healthy rise in the first half of this year compared with the same period in 1994.

Citic, through its Hong Kong subsidiaries, holds substantial stakes in Hong Kong Telecom and Cathay Pacific, but has recently cut down some of those interests, partly to free up funds for ambitious real estate ventures in the colony. Citic Pacific and Citic Hong Kong are also investing in the mainland in industrial ventures, infrastructure, including power stations, and real estate.

Mr Wang expounded a fairly basic philosophy when he spoke of Citic's method of operation in Hong Kong. "When prices are low we buy, when prices are high we sell," he said.

Mr Wang's natural business inclinations may be those of a trader, but he may have to curb these tendencies if he is to restore Citic's fortunes. He has, he says, given himself three years to put Citic's house in order.